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Entrepreneurship Fundamentals



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1 2 3 4 5 6 7 8 9 XXX 27 26 25 24 23

ISBN 978-1-26-660679-3

MHID 1-26-660679-3

Cover Image: Chayanit/Shutterstock

Interior Image (abstract background):

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Meet Our Lead Content Architect



Courtesy of Kandis Spurling

Tim Broxholm (MA, Seattle Pacific University)

For many learners, their business education journey begins with Introduction to Business. Tim has had the pleasure of educating numerous unique students in this course. His innovative teaching methods, applications of learning science, and educational technology have taken this foundational course to the next level. He arms students with the skills needed to perform like pros in the world of work, excel in future college courses, build wealth, and become savvy consumers.

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In addition to teaching and authoring, Tim works in the technology industry as a Senior Manager at Microsoft, which provides him the ability to bridge the divide between today's higher education curriculum and the rapidly changing needs of today's employers. While Tim serves in many roles, his most important role is as husband to his wife, Danielle, and dad to his sons, Raymond and Joey.

Acknowledgments

Entrepreneurship Fundamentals would not have been possible without the generosity, innovation, and expert contributions of the following:

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6 Understanding Your Customer

What to Expect

When you hear about research, what is the first thing you think of? For many, it's lab coats and clipboards. For entrepreneurs, marketing, research is used to understand customers – even you! Successful entrepreneurs are often good marketers and know how to interpret market research. Keep reading to learn what marketing research truly means.

Chapter Topics:

- **6-1** Marketing Research
- **6-2** Consumer Behavior
- **6-3** Business-to-Business Marketing



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Lesson 6-1

Marketing Research

This lesson introduces you to marketing research, not only as a marketer *doing* research but as a consumer *being* researched. How would you feel about being experimented on? This question raises common ethical concerns with marketing research, and this lesson also discusses the ethics of marketing research in an increasingly digital world.

By the end of this lesson you will be able to

- Explain the importance of marketing research to a firm.
- Outline the steps of the marketing research process.
- Identify the different types of marketing research data.
- Describe the role of experiments in marketing research.
- Explain why the need to understand competitors as well as customers is an Important part of marketing research.
- Describe the main ethical issues in conducting marketing research.
- Explain the difference between marketing research and marketing analytics.

Marketing Analytics Implications

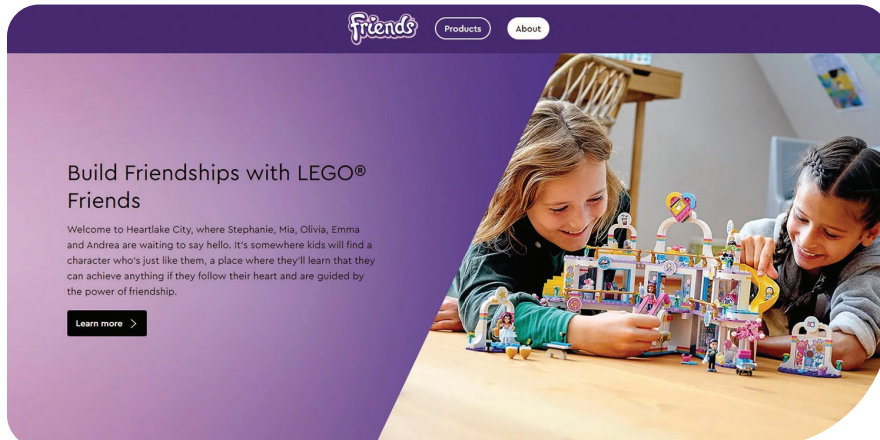
- Marketing research and marketing analytics work hand in hand, but they are not the same thing. Marketing research provides data to answer a specifically defined question. Marketing analytics explores the data to gain deeper insights about the data that collection alone cannot provide.
- Marketing analytics helps firms identify purchasing patterns; data mining is one method that firms use to explore and interpret data.
- Marketing analytics helps firms identify and interpret the relationships among multiple, complex sets of data; data modeling has become one of the fastest-growing methods for this type of data analysis.

LEGO: Building New Customers through Marketing Research

Believe it or not, marketing research has completely transformed countless companies, including LEGO. The LEGO philosophy is built on “systematic creativity—Lego bricks are all part of the Lego system, which essentially means that they can easily be combined in innumerable ways—and just as easily be dismantled. The more Lego bricks you have, the more fertile your creativity can become. The combination of a structured system, logic, and unlimited creativity encourages the child to learn through play in a wholly unique Lego fashion.”

After reading this philosophy, you’ll most likely think it can be applied to both boys and girls (and it can!), but for many years, LEGO catered to only one market segment: young boys. Girls comprised only 9 percent of LEGO’s users. This provided the company an opportunity to increase sales by expanding its reach

and empowering young girls in the process. But how would it appeal to this female audience? By conducting marketing research, of course!



LEGO used marketing research to understand how consumers interact with their products. As a result of marketing research, the company launched the LEGO Friends line focused on young girls.

LEGO conducted primary research in the form of focus groups, interviews, and observation to study the play habits of 4,500 girls and their mothers globally. Researchers discovered that boys and girls tended to play differently. For example, after boys finished building a castle, they tended to grab other items such as figurines and swords and use the castle simply as a backdrop for a battle. Girls, on the other hand, tended to want to play with the castle once it was built, and quickly discovered there was nothing to do with the castle because the inside was rather plain.

With these findings, LEGO launched the “LEGO Friends” line focused on young girls. The new line included a cupcake café, a giant treehouse, a supermarket, and other construction sets. The sets contained just as many pieces as other sets but offered girls the ability to assemble, play, and then continue assembling. While there were critics of the girl-focused line, it proved to be a success for the company. LEGO has seen a 15 percent average growth in sales since its launch.

Now that LEGO was focusing on both boys and girls, there was still one market that was underserved by LEGO: adults. Once again, LEGO conducted marketing research and discovered that adult LEGO users spend significantly more per year than average child users. One user even reported spending \$50,000 in one year! This new information led the company to decide to sell more expensive sets, like the Star Wars Millennium Falcon, priced at \$800 with 7,541 pieces.

The Importance of Marketing Research

Marketing research is the act of collecting, interpreting, and reporting information concerning a clearly defined marketing problem. When done properly, marketing research helps companies understand and satisfy the needs and wants of customers.

For example, LEGO's marketing research is aimed directly at its customers. LEGO:

- Collects information on its market segments by observing how children play and interact with the product.
- Interprets information by outlining the play process from start to finish for boys and girls.
- Reports its results by recommending the development of new products that match different types of play.

Marketing research has become more important, and more complicated, as markets continue to become globalized and product life cycles become shorter. In such a climate, companies need accurate information to reduce risk and make good decisions. This quest for information compels companies to spend billions of dollars each year on marketing research.

Patterns of consumer behavior that can change quickly, such as trends, styles, and preferences, also provide an incentive for firms to acquire fresh information through marketing research. Firms can no longer rely only on historical data to determine future marketing strategies. Now, they must generate timely information, interpret it quickly, and take action before the competition does. If they don't, they will be beaten before they can even begin.

Marketing research impacts almost every aspect of a company's business. We can see this impact clearly in terms of the four Ps: product, price, place, and promotion.

Product

Products need to be developed based on real customer needs and wants, not just the whims of marketing departments. Product developers in research and development departments must have an idea of what customers want before they can create new products, and finance departments must have good information concerning the viability of a product to approve expenditures on new product development.

Price

Pricing requires analysis of the size of the potential market and the effects of price changes on demand. This information comes from **demand analysis**, a type of research used to estimate how much customer demand there is for a particular product and to understand the factors driving that demand.

Place

Decisions regarding the place or distribution function must be made using **sales forecasting**, which is a form of research that estimates how much of a product will sell over a given period of time. Using this research, firms know how much product to hold in inventory at various points in the distribution network. We discuss sales forecasting in more depth later in the lesson.

Promotion

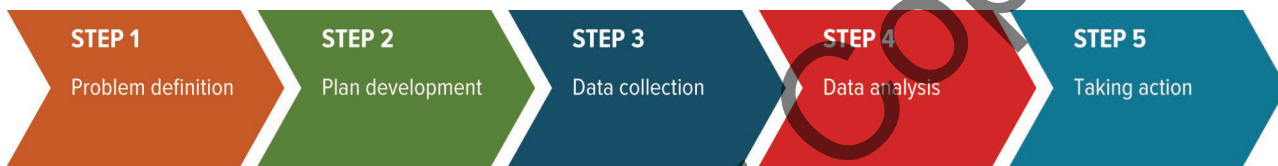
Promotional activities such as advertising must be evaluated based on their effectiveness. Firms use advertising effectiveness studies and sales tracking to gauge how well advertising and promotional campaigns are working. **Advertising**

effectiveness studies measure how well an advertising campaign meets marketing objectives such as increasing market share, generating consumer awareness of a product, or creating a favorable impression of the company's products. **Sales tracking** follows changes in sales during and after promotional programs to see how the marketing efforts affected the company's sales. Marketing professionals use the results of this research to adjust where and how they apply promotional efforts.

In addition to its impact on firms, marketing research matters to consumers like you. Consumers rely on companies to develop and market the products they need and want. Without marketing research, companies would mostly be guessing.

The Marketing Research Process

Marketing researchers use a variety of research techniques, and gather data from an assortment of sources, to provide the goods and services people truly desire. Regardless of the technique employed, firms follow five basic steps when they engage in the marketing research process.



Step 1: Problem Definition

Problem definition is the first step in the marketing research process. Often firms know that they have a problem but cannot precisely pinpoint or clearly define the problem. Clarifying the exact nature of the problem prevents the firm from wasting time, money, and human resources chasing the wrong data and coming up with the wrong solutions.

To begin, a firm should set specific research objectives. As with overall marketing objectives, research objectives should be specific and measurable. They represent what the firm seeks to gain by conducting the research.

For example, LEGO started by defining a problem such as “Why are girls not interested in our products?” The genesis of any company comes from finding a better way to serve customer needs. For LEGO, focus on the initial problem definition guided the research process and ultimately led to a viable product solution. In other words, without clearly defining the problem, LEGO would have never found that girls tend to play with the product differently than boys and that they needed products to match their type of play to keep them interested.

Step 2: Plan Development

Plan development, often called *research design*, involves coming up with a plan for answering the research question or solving the research problem identified in the first step of the process. Plan development is about identifying what specific type of research will be used and what sampling methods will be employed.

Types of Research

How marketing researchers decide which type of research they need to do depends on the nature of the question or problem the firm has and how well the researchers understand it. There are three general types of marketing research:

1. **Exploratory research** is used when researchers need to *explore* something about which they do not have much information. Exploratory research seeks to discover new insights that will help the firm better understand the problem or consumer thoughts, needs, and behavior. This type of research usually involves a personal interaction between the researcher and the people being researched, often in the form of conversations, interviews, or observations.
2. **Descriptive research** is used when researchers have a general understanding of a problem or phenomena but need to *describe* it in greater detail in order to enable decision making. Descriptive research seeks to understand consumer behavior by answering the questions who, what, when, where, and how. (Note that descriptive research *cannot* answer “why” questions.) Examples of descriptive information include a consumer’s attitude toward a product or company; a consumer’s plans for purchasing a product; specific ways that consumers behave, such as whether they prefer to shop in person or online; and demographic information such as age, gender, and place of residence.
3. **Causal research** is used to understand the *cause-and-effect* relationships among variables. Causal research, also called *experimental research*, investigates how independent variables (the cause) impact a particular dependent variable (the effect).

Almost all causal research and most descriptive research starts with the development of a hypothesis. A **hypothesis** is an educated guess based on previous knowledge or research about the cause of the problem under investigation. For example, based on your life experience, you could *hypothesize* that people are more likely to wear shorts in the summer than in the winter. Although this is almost certainly true, we cannot actually prove that it is true without collecting evidence and using facts to empirically support our educated guess.

Marketers will establish specific data collection procedures, discussed in the next section, based on the general type of research the company decides is most appropriate to achieve the research objective. Companies need not limit themselves to one type of research and often use multiple approaches to help solve a problem. In many cases, marketers will begin with exploratory methods to gain a better-nuanced understanding of a marketplace phenomenon in order to make hypotheses about consumer behaviors, and then later use experimental methods to test whether their hypotheses are true.

Summary of Different Types of Research

Research Type	When Used	How Conducted	Type of Hypotheses
Exploratory	Typical when information is limited, such as when a firm enters a new market	Interviews and/or observation	Questions designed to gain broad understanding
Descriptive	For situations where specifics of a market are not well defined (i.e., who, what, when, where, how)	Surveys and/or focus groups	Multiple and specific questions to gain specific understanding
Causal	Used in situations where clarifying what caused an action to happen, such as “why are sales increasing at only some stores?”	Experiments, often in a store setting	Questions that assess why something happens

Sampling

It would be impossible—from both a budget and time perspective—for marketing professionals to obtain feedback from all the members of their target market. Instead, they must rely on sampling. **Sampling** is the process of selecting a subset of the population that is representative of the whole target population. Feedback gathered from this sample can then be generalized back to the entire target market. How researchers conduct sampling is critical to the **validity** of the research findings—how well the data measure what the researcher intended them to measure.

Sampling can be broken down into two basic types:

- **Probability sampling** ensures that every person in the target population has a chance of being selected, and the probability of each person being selected is known. The most common example of probability sampling is **simple random sampling**, where everyone in the target population has an equal chance of being selected. Simple random sampling is the equivalent of drawing names from a hat; every name in the hat has an equal chance of being chosen.
- **Nonprobability sampling**, on the other hand, does not attempt to ensure that every member of the target population has a chance of being selected. Nonprobability sampling contains an element of judgment in which the researcher narrows the target population by some criteria before selecting participants. Examples include **quota sampling**, in which the firm chooses a certain number of participants based on selection criteria such as demographics (e.g., race, age, or gender), and **snowball sampling**, in which a firm selects participants based on the referral of other participants who know they have some knowledge of the subject in question.

While probability sampling enables researchers to generalize findings from a portion of a target population, nonprobability sampling can generate findings that may be more appropriate to the research question.

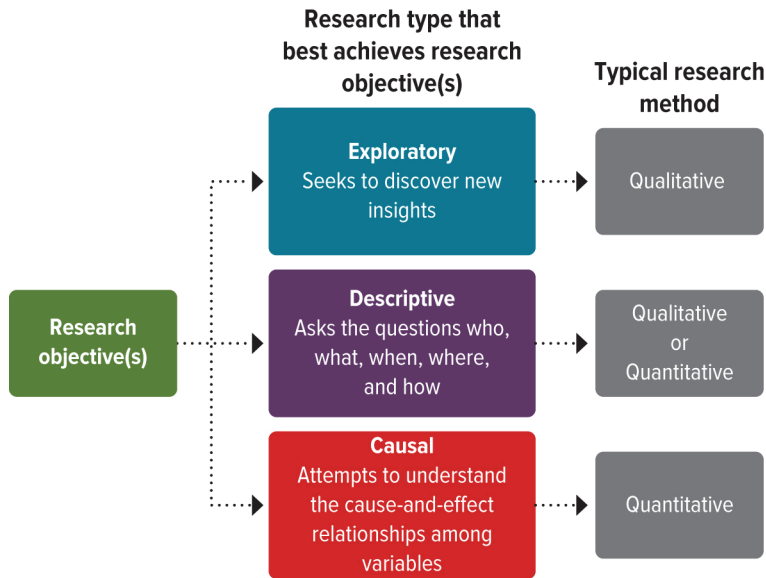
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Sampling is a valuable way to gather feedback about a large target market when obtaining feedback from every member of that target market is not feasible. In this photo, an Earth Balance representative is handing out free soy milk samples to consumers at a local market, and then asking them to complete a quick product survey—the link for which is found on the postcards displayed on the table.

Step 3: Data Collection

The third step of the marketing research process, data collection, begins with a decision about data. Researchers must ask themselves: Can we acquire the data we need to answer our questions from someone else, or do we need to collect the data ourselves? This section focuses on methods used when researchers must go out and collect the data themselves, and a later section discusses the advantages and disadvantages of using data already collected by someone else.

Primary data collection is when researchers collect data specifically for the research problem at hand; this can be either qualitative or quantitative in nature. Qualitative research studies the *qualities* of things, whereas quantitative research examines the *quantities* of things. **Qualitative research** is characterized by in-depth, open-ended examination of a small sample size, like in-depth interviews or focus groups, and is used for exploratory and descriptive research. **Quantitative research** is characterized by asking a smaller number of specific and measurable questions to a significantly larger sample size and is used for descriptive or causal research. The figure below shows the relationships among research objectives and the collection methods and types.



The Relationships among Research Objectives and Collection Options

Qualitative Research

As noted above, qualitative research includes exploratory types of research such as interviews, focus groups, and observation:

- In an **interview**, the researcher typically works with one participant at a time. During the interview, the researcher asks open-ended questions about how the individual perceives, uses, or feels about various products or brands. Interviews can be useful in figuring out what or how people think, but they have the limitation of being very time-consuming and must be conducted by experienced researchers who know how to properly ask and follow up on questions in a way that elicits rich and useful information from participants.
- **Focus groups** are conducted by a moderator and involve interviewing a small number of people (usually 8–12) at a time, where participants interact with one another in a spontaneous way as they discuss a particular topic or concept. The interactive nature of this setting lends itself to drawing out opinions and generating insights into a marketing question, much like one-on-one interviews but with the added advantage of group interactions. However, focus groups are expensive to perform and must be led by experienced moderators that are able to direct group discussions and manage interpersonal dynamics.

Qualitative methods like interviews and focus groups can provide researchers a great deal of insight, but they don't always allow researchers to draw generalized conclusions about the larger consumer population. To collect the necessary data to achieve their research objective, companies often turn to quantitative research.

Quantitative Research

Quantitative research includes surveys, experiments, and mathematical modeling:

- **Surveys** or questionnaires pose a sequence of questions to **respondents**. They provide a time-tested method for obtaining answers to who, what, where, why, and how types of questions and can be used to collect a wide variety of data. In addition, they help determine consumer attitudes, intended behavior, and the motivations behind behavior. Surveys often employ multiple-choice questions, making them appropriate for gathering feedback from a large number of participants. They can be administered by mail, at shopping malls, on the telephone, or online.

BANANA REPUBLIC

Which of the following best describes the primary purpose of your visit to the Banana Republic website today? (Please select one.)

- ☐ I had a customer service question
- ☐ To prepare for a store visit
- ☐ Just to browse
- ☐ To make a purchase
- ☐ To get style ideas or see what's new
- ☐ Other, please specify:

[Privacy Policy](#) [Support](#)

Banana Republic conducts survey research of its customers to find out many things, including their primary purpose for visiting its website.

- **Experiments** are procedures undertaken to test a hypothesis. They allow researchers to control the research setting so that they can examine causal relationships among variables. Researchers can see how a change in an independent variable (for example, price or product package color) might cause changes in another dependent variable (for example, sales or customer preferences). Experiments traditionally take place in a simulated environment known as a laboratory, but researchers can also perform **field experiments** in natural settings like stores or malls. While field settings offer an element of realism, they are also more difficult to control, which can lessen the validity of the experiment.
- Another type of causal research involves **mathematical modeling**, in which equations are used to model the relationships among variables. Statisticians have developed fairly reliable models for predicting certain elements of market behavior under normal market conditions, like how much consumer demand for a given item would go up or down based on a price change.

Step 4: Data Analysis

The purpose of data analysis is to convert the data collected in Step 3 into information the firm can use to answer the question or solve the marketing problem originally identified. If a research hypothesis was developed to be tested, analysis of the data should allow marketers to accept or reject the hypothesis.

Analyzing Qualitative Data

Researchers can gain substantial insights from qualitative research. Qualitative data gathering and analysis can give researchers ideas about the subject that can later be tested through quantitative research. Because there are no predetermined sets of responses (e.g., multiple-choice answers), the participant can open up to the interviewer and cover things that the researcher may not have thought of previously.

Because qualitative research usually results in great quantities of textual or media data, the qualitative analysis process generally involves a systematic approach to summarizing the data called coding. **Coding** is the process of assigning a word, phrase, or number to a selected portion of data so that it can later be easily sorted and summarized. The words, phrases, or numbers assigned to the data are called *codes*.

Data analysis, particularly when applied to qualitative data, can be challenging. Due to the immediate and personal involvement of both the researcher and research participants in the process, results may be difficult to measure objectively and without bias. Qualitative data, due to the open-ended and exploratory nature, often requires the interpretation of subtleties and nuances that inexperienced researchers may miss.



NVIVO software is used by researchers to sort through qualitative data and assign codes that help analyze the data.

Analyzing Quantitative Data

Quantitative methods for collecting and analyzing data can often be done quickly, at relatively low cost, and can help researchers describe large groups of customers and activities and understand cause-and-effect patterns in consumer behaviors.

Quantitative analysis almost always involves the use of **statistical analysis**, which is the mathematical classification, organization, presentation, and interpretation of numerical data. Simple analysis can be done in common programs like Microsoft Excel, whereas more advanced statistical modeling requires expensive and dedicated software like IBM's SPSS. There are two main types of statistics: descriptive and inferential.

Descriptive statistics are used to *describe* characteristics of the research data and study sample. Descriptive statistics, called “descriptives” for short, speak only to the properties of the data on hand and cannot be used to make claims about the larger population from which the sample was drawn.

Descriptives are the most common type of statistics we see in our daily lives, and they are the most straightforward way to tell a story about data. Anytime you see a percentage, a ratio, a bar graph, or a pie chart, that's a descriptive statistic. Descriptives can detail one variable at a time or multiple variables at a time. For example, your GPA uses one number to tell a story about your academic performance overall, across the dozens of classes you've taken. But statisticians could dig a bit deeper to introduce a second variable and compare your GPA for required versus elective courses.

Keep in mind that although descriptives allow us to summarize large quantities of data with a small amount of information, just like any type of summary, we lose a bit of detail along the way. For example, by looking at a GPA of 3.46 we would have no way of knowing whether a given student consistently earned B+ grades in all of his classes, or whether she was almost a straight A student that received a single D last semester.



Inferential statistics, on the other hand, are used to make *inferences* about a large group of people from a smaller sample. The purpose of inferential statistics is to make generalizable conclusions about a population by studying a small group from that population. Inferential statistics almost always include two or more variables.

Some inferential statistics are used to explore *differences* between two groups of people. For example, we might want to explore the differences between how men and women perform on an exam (studying two groups of people at the same time), or see if there is a difference in exam performance between the midterm and the final (studying the same group of people at two different times).

Other types of inferential statistics examine *relationships* among variables. For example, we might want to see if there was any correlation between time spent studying and exam grade performance.

As with qualitative data, there are drawbacks to quantitative analysis. While statistical analysis might give marketing professionals insight into consumer behavior, whether the results should be accepted depends on how well the sample represents the general population and how well the statistics were conducted. Remember that statistical results are only as good as the data you have, and the data are only as good as the methods you used to collect them and the sample you collected them from. As we mentioned earlier, validity concerns how well the data measure what the researcher intended them to measure. If you have ever come across a statistic in the newspaper or in an advertisement and thought “that doesn’t seem right” or “yeah, but . . .” that’s calling the validity of the results into question. Often, validity is called into question because of poorly worded questions that can be interpreted in several ways.

The following table lists some of the advantages and disadvantages of qualitative and quantitative research methods.

Advantages and Disadvantages of Qualitative and Quantitative Research

Research Method Type	Advantages	Disadvantages
Qualitative	<ul style="list-style-type: none"> • Uncovers details concerning the motivations behind behaviors • Is not limited to a predetermined set of responses • Can be a good way to start research into a marketing problem • Can be very flexible in approach • Can be used to generate marketing ideas 	<ul style="list-style-type: none"> • Results may be difficult to measure objectively • Research can take longer than quantitative methods • Potential for researcher bias • Individual participants may not represent general target market • Small sample size
Quantitative	<ul style="list-style-type: none"> • Results may be generalizable to a larger population • Some methods can be conducted quickly and inexpensively • Analysis of data can be faster than in qualitative research • Can conduct causal studies that indicate why behaviors occur • Can be cost-effective • Often convenient for respondent 	<ul style="list-style-type: none"> • May be limited by researchers' questions • Response rates can be very low • Difficult to determine nonresponse bias • Possible respondent self-selection bias • Participant resistance to giving sensitive information

Step 5: Taking Action

The culmination of the marketing research process is a formal, written report to decision makers. The report typically includes a summary of the findings and recommended actions to address the problem. Often, an oral report on the project is presented along with a written one.

Research report findings should be presented in a clear and understandable manner and include appropriate visual data, such as figures and tables, to support the findings and recommendations. The research report should allow the marketing manager to solve the marketing problem or provide answers to the marketing manager's questions.

Both reports should communicate any limitations of the research. Limitations could include a variety of things, including inadequate sample sizes or samples that do not adequately represent the population under study. It is important that marketers honestly discuss the limitations of the research. Such limitations should be considered before the firm makes any final decisions based on the research.

Step 1: Problem Definition

Redbox has a problem. Rental of DVDs at its self-serve kiosks have been steadily declining. This problem helped Redbox to define a problem and set the research objective: can Redbox compete in the online streaming market?

Step 2: Plan Development

To study this objective, Redbox was able to determine that its 27 million customers (enrolled in its loyalty program) would be a suitable test group and that it needed to study consumer preferences for online streaming.

Step 3: Data Collection

Redbox conducted primary research through surveys and focus groups comprised of current disc renters. These primary data were used to uncover unique needs and wants of Redbox customers.

Step 4: Data Analysis

The results of Redbox's research uncovered a market need for a non-subscription content streaming service that focuses on new release movies (more titles than competitors) and lower rental process (starting at \$3.99) for a longer duration (2 days).

Step 5: Taking Action

The report of the research findings helped Redbox to design and launch its new streaming service. The new service focuses on the needs of 27 million customers and also hopes to attract new customers.

Marketing Research Data

Data are facts or measurements of things or events. *Qualitative data* might take the form of interview transcripts, video recordings of focus groups, or field notes from an in-store observation of shoppers. *Quantitative data* may be a collection of filled-out questionnaires or a spreadsheet with thousands of rows and columns of responses to an online survey. Data can also be presented in the form of a graph for easier digestion.

Data are the building blocks of research. Without data, researchers would simply be guessing when making marketing decisions about strategy, product design, pricing, distribution, promotions, and advertising. Likewise, without data, we cannot tell a story about our sample, but data by themselves do not tell the story. Researchers need to analyze data to help tell the story and turn the data into information.

Information is the result of formatting or structuring data to *explain* a given phenomenon, or to *define the relationship* between two or more variables. Information is the result of data analysis. Qualitative information from interviews

may take the form of a theory about customer behavior or insights about why certain customers make the choices they do when they shop. Quantitative data can be presented using charts or diagrams and can provide information about customer behavior such as who a store's customers are, when they shop, what they buy, and how they move through the store. Unlike data, information can support and enable marketing decision making.




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Survey engines such as Survey Analytics help researchers collect data through its survey platform; it can also automatically generate a bar or circle graph, like the ones shown here, out of the complex data it collects, making the data easier for marketers to digest and interpret.

Primary versus Secondary Data

As discussed previously, all research endeavors must begin with researchers asking themselves about the nature and type of data they need to answer their questions. Sometimes questions can be answered using existing data, but sometimes they cannot, and researchers must go out to collect new data to answer their particular question.

Primary data are data that are collected specifically for the research problem at hand. For example, LEGO conducted MRI scans of children's brains as they played to understand how their brains reacted. In doing so, the company collected primary data because the data were collected specifically for the purpose of this research.

Secondary data are data that have been collected for purposes other than answering the firm's particular research question. For example, if LEGO wanted to dig into its data to see what the top three selling products are for children under age 10, this would be a secondary use of the company's primary data because the data were collected for another purpose.

As with most decisions, using secondary data requires the marketing researcher to make a trade-off: On one hand, secondary data are much less expensive and easier to access than primary data, but on the other hand, secondary data collected for another purpose may not shed light on the specific nuances of a firm's particular problem.

Primary data collection may be necessary if secondary information cannot adequately answer the research question. Using primary data requires marketing researchers to invest far more time and money into their research endeavors, with respect to both collecting and analyzing data, but this can result in far more firm- or problem-specific information that allows for a more nuanced understanding of customers and their behavior.

(You're probably curious about the results of this research. The MRI scans showed that children had the highest level of engagement in skill-based play and from gaining the satisfaction of completing the building process. This research finding led LEGO to rank its sets based on skill level.)

Differences between Primary and Secondary Data

	Primary Data	Secondary Data
Collection Method Examples	<ul style="list-style-type: none"> • Focus groups • Surveys • Observations • Data gathered by equipment (e.g., video) • In-depth personal interviews 	<ul style="list-style-type: none"> • Literature reviews • Online electronic searches • Company records • Marketing information systems • Private research companies • Boundary spanners (e.g., salespersons)
Advantages	<ul style="list-style-type: none"> • Pertain only to firm's research • May provide insight into why and how consumers make choices 	<ul style="list-style-type: none"> • Less expensive (often free) • Information typically readily accessible
Disadvantages	<ul style="list-style-type: none"> • More expensive • May be difficult to enlist customer participation • May take excessive amount of time to collect 	<ul style="list-style-type: none"> • Data may not be relevant • Data may not be accurate • Data may have been altered • Data may contain bias
Examples of Use	<ul style="list-style-type: none"> • To understand what motivates consumers • To determine the effect of variables (e.g., price) on product choice • To gain feedback on company's existing and proposed products 	<ul style="list-style-type: none"> • To gather macroeconomic data • To gather socioeconomic data • To obtain information about competitors • To gain insight into international cultures and markets

Sources of Primary and Secondary Data

Primary data can be qualitative or quantitative in nature and can take the form of interviews, focus groups, observations, video recordings, questionnaires, surveys, or experiments.

Secondary data can come from internal or external sources. *Internal secondary data* are collected by the company and can include things such as sales by

product, information about individual purchases from loyalty cards, previous research reports, accounting records, and market information from the sales force. Companies often build large internal databases in which to store such data.

External secondary data can come from many sources. Governments compile a lot of data and make them available to the general public. U.S. government agencies such as the Economics and Statistics Administration and the Census Bureau provide a great deal of useful secondary data in various publicly available reports. The Census Bureau, for example, provides geographic and demographic data about U.S. citizens for free. Other sources of secondary data, some free and some paid, include trade associations, academic journals, business periodicals, and commercial online databases. The Internet is a rich source of secondary information.

Sources of Primary and Secondary Data

Primary Data Sources	Secondary Data Sources
Observations	Previous research
Audio or video recordings	Literature reviews
Interviews	Online electronic searches
Correspondence	Company records
Focus groups	Marketing information systems
Case studies	Private research companies
Questionnaires	Government reports
Online surveys	Academic journals
Experiments	Periodicals and mass media
	Historical information

Experimental Research in Marketing Research

Earlier in this lesson, we briefly discussed marketing research experiments. As you will recall, experiments are procedures undertaken to test a hypothesis. Just like traditional scientists, marketing researchers are *social* scientists, and they conduct research experiments in much the same manner, and for much the same purpose.

Experiments are a type of causal research: the purpose is to allow researchers to control and then manipulate the research setting so that the researchers can examine causal relationships among variables. In a normal marketplace setting, there are lots of things going on at once, so it makes testing cause-and-effect relationships difficult. By carefully and intentionally manipulating—in the literal sense of skillful control and adjustment, not the colloquial sense of being unscrupulous—certain elements of the research setting, researchers are able to test cause-and-effect relationships in a much more definitive way.

Independent and Dependent Variables

Usually experimental research means investigating how a change in an **independent variable** might cause changes in one or more **dependent variables**. Dependent variables are the ones being tested and measured. A change in the dependent variable *depends* on something changing with another variable in the

study. Independent variables, on the other hand, are the variables that *cause* the change in the dependent variables.

Some independent variables can be *controlled* for but not changed or manipulated specifically by researchers. Examples of this type of independent variable would be age, height, income, grade point average, weather, or time of day. But other types of independent variables can be intentionally *manipulated* by researchers, such as price, package color, store temperature, number of staff working, or product placement.

Research Considerations



In addition to considering how to study a problem (e.g., survey, experiment, etc.), marketers also need to determine who is being researched in different experimental conditions.

Experimental conditions are the set of inputs (independent variables) presented to different groups of participants. In an experiment, typically only

one or two inputs will be changed in each condition. This tight control over each condition allows researchers to identify what is causing something to happen in one group versus not happen in another. Those assigned to conditions are called **participants** because they are *participating* in the experimental conditions. Participants are typically selected using a defined selection process and randomly assigned to one of the different experimental conditions.

For example, we might be interested to research if the new low-calorie ice cream, Halo Top, contributes to weight loss. Halo Top is a low-sugar, high-protein ice cream that lists the calorie count for each pint prominently on the label. To test this question, we could set up three experimental conditions.

- **First Condition:** Participants eat only Halo Top ice cream (in specific quantities and with all other food intake being equal).
- **Second Condition:** Participants eat a higher-calorie ice cream (in the same specific quantities and with all other food intake being equal).
- **Control Condition:** Participants eat no ice cream (with all other food intake being equal).

This would be a very difficult experiment to conduct because it is hard to control exactly how much a person eats, especially outside of a laboratory. However, if this test could be conducted, we would expect to see differences in weight gain/loss between the groups. Marketers analyze these differences to determine, with all other things being equal, what happens when one thing is changed (in this hypothetical experiment, type of ice cream). The results of this experiment would seem obvious, but in many cases, determining exactly what is causing something

to happen can be complex. In cases where it is important to test what is causing change (e.g., pharmaceutical trials, tire blowouts, etc.), experiments may be the only way to sort out a complex problem.

Experiments traditionally take place in a simulated environment: a laboratory—for social scientists as well as traditional scientists—because researchers can have more control over the research setting, environment, and extraneous variables. An **extraneous variable** is anything that could influence the results of an experiment that the researchers are not intentionally studying. For example, if one of our Halo Top participants were to eat a few extra protein bars each day during the experiment, the experiment's results would be skewed by the extraneous variable (protein bars).

For marketers studying consumer behavior, it often makes more sense, both practically and financially, to study customers in a realistic marketplace environment. As we discussed earlier, experiments where researchers control or manipulate variables but that are conducted in natural settings are called *field experiments*. Although field settings offer an element of realism, they are also more difficult to control and more extraneous variables can possibly influence the outcomes.

Deciding whether to conduct experiments in a laboratory or in the field is certainly a question of resources, but it is importantly a question of validity. As you'll recall, validity is the extent to which an experiment measures and tests what it is supposed to measure and test. There are two types of validity to consider, which highlight the trade-offs a researcher must make when choosing between laboratory and field experiments.

The first type considers the validity of the **experimental manipulation** itself. **Internal validity** is the extent to which changes in the outcome variable were actually caused by manipulations of the independent variable conditions. The higher the internal validity, the more faith we can have in the cause-and-effect relationship demonstrated. The second type of validity to consider is **external validity**, which is the extent to which the results of the experiment can be generalized beyond the study sample of subjects. The higher the external validity, the more likely it is that the cause-and-effect relationship demonstrated by the experiment will be found across similar real-world settings. Field experiments tend to be lower in internal validity but higher in external validity, whereas laboratory experiments tend to be higher in internal validity but lower in external validity.

For example, in the Halo Top study, if the experiment were conducted in a laboratory setting, it would be easier to control what the participants ate. Exact portions could be weighed and measured. Other variables could also be closely controlled, such as exercise and sleep, which might affect weight

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loss. The problem is, not many people would want to live in a controlled lab setting for a long period of time.

Conversely, the study could be conducted as a field experiment. In this setting, participants would record their eating, exercise, and sleep. However, it is pretty easy to imagine that errors would affect the study results. The lab experiment is most effective, but unrealistic, and the field experiment is most realistic, but least effective. In most cases, there is no great solution, so these trade-offs are considered by marketing researchers and the best solution is followed, based on the objectives of the experiment.

In addition to considering how to study a problem, marketers also need to determine who to study in different experimental conditions. If all of these individuals participated in the Halo Top experiment in a laboratory setting, it would be easier to control what they ate and therefore observe the differences in weight gain/loss among them more accurately. The problem is, not many people want to live in a controlled lab environment for extended periods of time.

The Importance of Competitors and Consumers in Marketing Research

The purpose of marketing research is to help entrepreneurs and marketing managers make better decisions. Often when we talk about marketing research, we discuss it in the context of the consumer marketplace. Why people make the purchase decisions they do, and when, how, and where they make those decisions are common questions marketers ask. Entrepreneurs and marketers also often want to understand what their customers want and how things such as product features and prices influence their decision making. When done properly, marketing research helps companies understand and then satisfy the needs and wants of customers, which creates value for all.

Another important component of marketing research involves gathering data about what competitors are doing in the marketplace. **Competitive intelligence** involves gathering data about what strategies direct and indirect competitors are pursuing in terms of new product development and the marketing mix. Such information can provide a firm with foreknowledge of a competitor's upcoming promotions or products, allowing it to respond in a way that blunts the effects of the competitor's actions.

A company can obtain information about another company's activities and plans in a number of ways, including conferences, trade shows, social media sites, competitors' suppliers, distributors, retailers, and competitors' customers. Competitor websites and the websites of government agencies such as the Securities and Exchange Commission (SEC) and the U.S. Patent and Trademark Office may contain financial and new product information about competitors. Firms also can obtain information for a fee from a number of companies that collect data and make them accessible.

There are also unethical ways of obtaining competitive intelligence. Bribing competitor employees for information and hiring people to tap phone lines or

place surveillance cameras on the premises of rival companies are both examples of unethical and illegal ways of getting competitive information. Firms should scrupulously avoid these activities for legal reasons as well as for the damage they can do to a company's image and reputation.

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Trade shows, such as the annual Consumer Electronics Show (CES) in Las Vegas, are a great place for marketers to gather competitive market intelligence.

Marketing Research Ethics

Whether conducting research for a domestic or international market, firms must always consider the ethical implications of gathering data on customers and competitors. Such considerations have become even more essential in a world of rapidly changing technology.

Privacy in a Digital Age

The increasingly powerful computer capabilities available to companies allow for the collection, storage, and analysis of data from millions of consumers. Online platforms like Twitter that are used by millions of consumers present firms with almost unlimited access to personal data. But companies must be careful not to go too far in collecting information of a sensitive nature. There is enough concern in the marketing industry about consumer privacy that many companies now have chief privacy officers who serve as watchdogs, guarding against unethical practices in their company's collection of consumer data.

At issue is the willful intrusion on the privacy of individuals. Consider mobile ad network companies that use unique identifiers embedded in smartphones to collect information about consumer preferences as they move from one app to another. To do this, such companies have worked around efforts by Apple to protect the privacy of iPhone and iPad users. The companies say they need personal data from users or they will lose millions of dollars of revenue from the firms that hire them,

such as Mazda and Nike. Although Mazda and Nike don't participate in the actual tracking of data, they could potentially use what's collected to target customers based on geographic or demographic profiles. Meanwhile, the Federal Trade Commission (FTC) is evaluating mobile tracking technology as part of its ongoing mission to protect consumer privacy. It is trying to determine how far a company can go in tracking personal information before it invades customer privacy and becomes unethical.

Using Data Appropriately

Another ethical issue in marketing research is the misuse of research methods and findings. Marketing research firms may be compelled by their clients to return findings favorable to the client or to arrive at a conclusion predetermined by the client. Or marketing research firms may have employees who report false data, do not follow the directions for conducting the research, or claim credit for surveys that never were conducted.

Organizations such as the American Marketing Association, the Marketing Research Association, the International Chamber of Commerce (ICC), and ESOMAR, concerned with the reliability of research results, have established ethical standards for conducting research. The table below lists the key components of the ICC/ESOMAR standards. Such standards are important to the industry because they help gain the trust of consumers. Without that trust, individuals will be less likely to participate in marketing research. Expectations of privacy, or other ethical concerns, may vary depending on geography. By developing a global set of marketing research expectations, firms can ensure that they are adhering to appropriate marketing research standards, regardless of location.

Key Fundamentals of the ICC/ESOMAR International Code on Market, Opinion and Social Research and Data Analytics

1. Market researchers shall conform to all relevant national and international laws.
2. Market researchers shall behave ethically and shall not do anything which might damage the reputation of market research.
3. Market researchers shall take special care when carrying out research among children and young people.
4. Users' cooperation is voluntary and must be based on adequate, and not misleading, information about the general purpose and nature of the project when their agreement to participate is being obtained and all such statements shall be honored.
5. The rights of users as private individuals shall be respected by market researchers and they shall not be harmed or adversely affected as the direct result of cooperating in a market research project.
6. Market researchers shall never allow personal data they collect in a market research project to be used for any purpose other than market research.
7. Market researchers shall ensure that projects and activities are designed, carried out, reported and documented accurately, transparently and objectively.
8. Market researchers shall conform to the accepted principles of fair competition.

This Code was drafted in English and the English text is the definitive version. As the Code and ESOMAR guidelines are updated on a regular basis, please refer to www.esomar.org for the latest English text.

Clearly, it is in the best interest of companies to conduct marketing research in the most ethical manner possible. If they don't, consumers may refuse to participate in research studies, provide personal information either online or face-to-face, visit company websites, or order products online. Additionally, ethical behavior on the part of companies will make it unnecessary for the government to increase regulation of marketing research practices.

Marketing Analytics: An Insightful Look into Marketing Research Data

Differentiating between Marketing Research and Marketing Analytics

Marketing research is an iterative process that gathers data to answer a clearly defined research question; the end result provides clear outcomes and deliverables. Marketing analytics focuses on the data collected by marketing researchers and *how* those data can be used. These data typically are stored in the firm's data repository. The analytics team then examines the complete set of data gathered by the firm and may reuse them for further study, for example, to identify the effectiveness of distribution channels.

Using Data Mining to Identify Purchasing Patterns

Marketing analytics uses several methods to explore data collected through marketing research; data mining is one popular, growing method that firms use to identify and interpret purchasing behaviors. For example, several years ago Target sent a teen girl in Minneapolis coupons for maternity clothes, baby clothes, and baby furniture, which provoked her father to go to his local Target demanding to speak to the manager, to whom he angrily accused the company of trying to encourage his daughter to get pregnant. It wasn't until his daughter later informed him that she was, in fact, pregnant that the father backed down and apologized for his behavior. Although the local store manager had no idea why the Target coupons were sent to the teen, Target's marketing team knew it was because of the marketing analytics they conducted on the daughter's purchasing behavior. According to Target's statistician Andrew Pole, Target assigns every customer who visits its site a Guest ID number, which is tied to that guest's personal information, including name, credit card, or e-mail address. This information is stored in a data repository that statisticians like Pole then analyze to identify buying patterns. The teen's buying patterns aligned with that of expectant parents. These customers would purchase certain sets of products together (e.g., lotions, hand sanitizers, and vitamin supplements), and then a few months later, diapers. Target made an educated guess that this teen was also expecting and thus sent her coupons and advertisements of items an expectant parent would buy.

Statistical Modeling of Complex and Voluminous Data



Marketing research and marketing analytics work hand in hand; marketing analytics requires marketing research to provide data for further analysis and marketing analytics evaluates those data to provide deeper insight into the defined research question, in some cases, even raising additional questions for continued or additional study.

Marketing analytics have come to the forefront of marketing due to the availability of multiple large and complex data sets. Analytics assists firms in identifying relationships among these multiple data sets—relationships that are not evident from looking at marketing research studies or data alone. The data provided by online sites such as Google and Facebook, and even the firm's own website, provide a wealth of information about consumers' preferences and shopping behavior. However, these data must be organized and studied in order for them to be of any use to the firm. Data mining and data modeling are two growing fields within data science. Statistical models are used to organize and review the data. Once relationships between variables are found, then researchers must interpret the meaning of those relationships. In the Target example, if the data showed that customers who purchased items related to expectant parents also showed higher instances of purchasing blue bath mats, one may conclude that expectant parents really like blue bath mats. However, sometimes the relationships between data points are not relevant or meaningful. A more meaningful interpretation may be illustrated by the Connect Marketing Analytics exercise related to this section. In the exercise, you are asked to examine the differences between men and women in their preference for online learning. Marketing analytics can use these data to potentially validate a relationship relating to the differences in general online purchasing behavior between men and women.

Responsible Marketing

Is Marketing Research Worth the Investment?

Companies rely on marketing research to streamline their marketing efforts and effectively reach their target markets. Dove is an example of a company that continues to capitalize on its marketing research strategies and deliver advertisements that are both culturally and emotionally relevant.

Dove's "Campaign for Real Beauty" catapulted Dove from a creamy soap brand to a giant in the beauty industry. Data have shown that 68 percent of women feel the media supports unrealistic standards of beauty. Dove paid attention to the data, and in the early 2000s the company devised a campaign that focused on using real women, not models. This was a drastically different approach from other beauty companies that typically used models and air-brushing.

Over the past 20 years, Dove has continued to promote the “Campaign for Real Beauty,” which has proven to be a very successful long-term strategy for the brand. In 2007 Nielsen discovered that every \$1 Dove spent on advertising resulted in \$4.42 in sales, which validated the investment Dove makes in marketing research.

Reflection Questions

1. What types of primary and secondary data would a company like Dove collect for its marketing campaigns?
2. How can companies use data mining to further their marketing research?

Review Copy

Lesson 6-2

Consumer Behavior

This lesson concerns the foundations of *consumer behavior*, which is rooted in the psychology of *why*, *when*, *where*, and *how* customers purchase products. To address these questions more specifically, entrepreneurs and marketers delve into customer buying behaviors. We all make decisions for different reasons, yet we follow a very similar process to do so. Understanding the process people use to make decisions and how this process functions in different settings is one of the more interesting and useful aspects of marketing—and the focus of this lesson.

By the end of this lesson you will be able to

- Describe the stages in the consumer purchase decision process.
- Identify the influences on consumer behavior.
- Distinguish among three variations of the consumer purchase decision process: routine, limited, and extended problem solving.
- Explain how data can be used to understand the consumer decision-making process.

Marketing Analytics Implications

- Many of the models used in consumer behavior were brought over from psychology. Models such as the consumer decision-making process were developed and studied in both psychology and marketing. The data from these studies are reviewed to ensure that these models, often used to predict consumer behavior, are still accurate.
- Because consumers are influenced by a wide variety of factors, marketers must constantly study not only the data gathered from the marketing environment, but also the data gathered from the economic, demographic, political/legal, technological, competitive, and sociocultural environments in which consumers live. All these data combined help marketers determine how changes in these environments are impacting consumers.
- Marketers have developed a series of tools to help structure and assist consumers in making complex decisions.

“Why Do I Buy?": The Psychological Basis of How Consumers Make Buying Decisions

The study of consumer behavior asks *why*? Why do we buy some things and not others? Why do we buy things that we didn't intend to buy? Why do people see products differently? Why does the setting of the store change how we value a product? Asking “why?” is a powerful component of studying consumer behavior topics.

Marketers strive to understand you—the customer—to help firms better adapt their marketing mix in order to create value for you.



During the onset of the COVID-19 pandemic in 2020, consumer behavior changed dramatically. Many retailers were selling out of necessity items like toilet paper and rice, but consumers “panic shopped” other items as well. Because they couldn’t get to a gym, consumers ordered weights and gym equipment for their homes, causing up to a three-month

delay for some products. Pet owners rushed to order grooming supplies and nail clippers while parents of young children stocked up on bicycles, puzzles, and workbooks to make the time at home more bearable.

Consumer behaviors are likely to experience lasting changes caused by the pandemic. Consumers once reluctant to shop online or utilize curbside pickup are embracing the new shopping experience. At the same time, physical retail locations are unlikely to vanish as many consumers find happiness at the chance to touch and feel products again.

Behaviors have also changed for things like self-care, mental health, and physical wellness. Consumers are spending increased time reading and taking up hobbies—all leading to a shift in spending habits focused on experiences rather than material possessions.

Because researchers have no comparison for the pandemic, understanding how consumers will behave in the post-pandemic world is impossible. What they do know is that periods of crisis often reshape consumers’ values and individual psyches and that most brands will need to update their pre-pandemic personas and communication tactics.

As many consumers feared shopping in public, online ordering and delivery services became increasingly important to both consumers and businesses as they responded to changing consumer behaviors.

The Consumer Purchase Decision Process

Consumer behavior is the way in which individuals and organizations make decisions to spend their available resources, such as time or money. Firms that understand these principles of *why*, *when*, *where*, and *how* individuals and organizations make their purchases are often able to sell more products more profitably than firms that do not.

Most consumers go through a common decision-making process that involves the following five stages:

1. Problem Recognition
2. Information Search
3. Evaluation of Alternatives
4. Purchase
5. Post-Purchase Evaluation

Stage 1: Problem Recognition

Problem Recognition Question:

What need do I have to satisfy?

Answer:

I am hungry, and I need to eat something.



Stage 2: Information Search

Information Search Question:

What products are available to meet my need?

Answer:

I had pizza at the place down the street and it was good, but let me check online for other choices.



Stage 3: Evaluation of Alternatives

Evaluation of Alternatives Question:

What product will best satisfy my need?

Answer:

I am low on money so I should go for the cheapest option.



Stage 4: Purchase

Purchase Question:

Where should I purchase from and how much should I pay?

Answer:

I will go with the place down the street because it charges only \$10.50 for a large pizza.



Stage 5: Post-Purchase Evaluation

Post-Purchase Evaluation Question:

Am I satisfied with my purchase?

Answer:

It was cheap, but it was so greasy I feel sick. I have to remember not to order there again.

Note that this response exemplifies *cognitive dissonance* because the consumer is feeling regret over the purchase.



Problem Recognition

The buying process begins when consumers recognize they have a need to satisfy. This is called the **problem recognition** stage.

Imagine leaving class to find that high winds had blown one of the oldest trees on campus onto your car. You need your car to get to school, work, and social events. Because your car is destroyed, you immediately recognize that you need a new mode of transportation. In this case, due to a lack of public transportation and the distance you must travel to meet your day-to-day obligations, you need to buy a new car.

Alternately, consider the panic shopping induced by COVID-19. All of a sudden, consumers felt the need to buy large amounts of toilet paper.

Image Not Available In Review Copy

Sometimes problem recognition is easy, such as when you get a flat tire. In other cases, problem recognition is more difficult, such as deciding when to begin to plan for retirement; many don't realize they need to do so until it is too late.

From a marketing perspective, it's important to keep in mind the following two issues related to problem recognition:

- 1. Marketers must understand all aspects of consumers' problems, even those that are less obvious, to create products that improve or enhance consumers' lives.** For example, if marketing professionals don't know what problem, beyond the need for transportation, you want to solve by purchasing a new car, they are not likely to develop strategies that will resonate with you. Are you looking for added prestige, or do you want to spend less on monthly payments? Marketers also must recognize that consumers might be buying the same car to solve different problems.
- 2. Marketers must remember that if consumers are not aware of a problem or do not recognize a need, they are unlikely to engage in any of the subsequent steps of the buying process.** For example, Whole Foods may offer free samples of a new organic coffee brand to help consumers realize that they have a problem (in this case, the problem would be that they don't own this brand of coffee that tastes better than the leading brands). For Whole Foods, helping consumers recognize how new products solve unknown needs is an important way to encourage evaluation of alternatives and potential purchase of new products.

Information Search

Once consumers recognize a problem, they begin the **information search** part of the decision process. They seek information to help them make the best possible decision about whether to purchase a product to address their problem. Consumers expend effort searching for information based on how important they consider the purchase. Consumers search for both external information and internal information.

External Information Search

When consumers seek information beyond their personal knowledge and experience to support them in their buying decision, they are engaging in an **external information search**. Marketers can help consumers fill in their knowledge gaps through advertisements and product websites. Many firms use social media to empower consumers' external information searches. For example, Ford uses Facebook, Twitter, YouTube, Flickr, and Scribd to communicate information and to deepen relationships with customers.

Consumers' friends and family serve as perhaps the most important sources of external information. Recall again the example of buying a new car and what those in your life might say about different vehicle brands or models. If your parents or friends tell you about a negative experience they had with a certain car model, their opinions probably carry more weight than those of other external sources. Reviews of a product or service by other customers also carry a great deal of weight. How often have you decided not to stream a movie, visit a restaurant, or stay at a hotel based on what others have said in reviews? The power of these personal external information sources highlights why marketers must establish good relationships with *all* customers. It's impossible to predict how one consumer's experience might influence the buying decision of another potential customer.

When buying a new car, booking a hotel room, or choosing a restaurant, consumers increasingly use sites such as Yelp and TripAdvisor to read other consumers' evaluations prior to making a purchase.



Internal Information Search

Not all purchases require consumers to search for information externally. For frequently purchased items such as shampoo or toothpaste, internal information often provides a sufficient basis for making a decision. In an **internal information search**, consumers use their past experiences with items from the same brand or product class as sources of information. For example, you can easily remember your favorite soft drink or vacation destination, which will likely influence what you drink with lunch today or where you go for spring break next year.

In our car example, your past experience with automobiles plays a significant role in your new car purchase. If you have had a great experience driving a Ford Escape or Toyota Camry, for example, you may decide to buy a newer model of that same car. Alternatively, if you have had a bad experience with a specific car, brand, or dealership, you may quickly eliminate those automobiles from contention.

Evaluation of Alternatives

Once consumers have acquired information, they can use it to evaluate different alternatives, typically with a focus on identifying the benefits associated with each product. Consumers' **evaluative criteria** consist of attributes that they consider important about a certain product. Returning to our car-purchase example, you would probably consider certain characteristics such as the price, warranty, safety features, or fuel economy more important than others. Car marketers work hard to convince you that the benefits of their car, truck, or SUV reflect the criteria that matter to you.

Marketing professionals must not only emphasize the benefits of their good or service but also use strategies to ensure potential buyers view those benefits as important. For example, Whole Foods sells its food products at premium prices, so Whole Foods focuses its marketing efforts on highlighting how its program of working with local vendors is good for the local economy and helps the global environment.

Purchase

After evaluating the alternatives, customers will most likely buy, or *purchase*, a product. At this point, they have several decisions to make. For example, once you have decided on the car you want, you have to decide where to buy it. The price, salesperson, and your experience with a specific dealership can directly affect this decision. In addition, items such as financing terms and lower interest rates at one dealership versus another can affect your decision. If you decide to lease a car rather than buy one, you would make that decision during this step.

Marketers do everything they can to help you make a decision to purchase their product, yet in the end, it comes down to many small decisions. Thus, an effective marketing strategy seeks to minimize any small decisions that could delay or derail the actual decision to purchase. Companies like Lowe's are very aware that consumers often get bogged down in details related to delivery, installation, and cost before deciding to make a purchase. For this reason, Lowe's offers a variety of services, such as design, delivery, installation, and financing. Lowe's main reason for doing this is not explicitly to earn profit from selling services, but rather to remove any roadblocks from a consumer making a purchase at its store versus a competitor like Home Depot. Because profits start with sales, providing goods and services that make it easy for consumers to make a purchase decision is one of the most important activities that marketers perform.

Post-Purchase Evaluation

Consumers' **post-purchase evaluation** occurs after the sale is complete. Consumers will consider their feelings and perceptions of the process and product, which can result in either positive or negative assessments. Post-purchase assessments are important because these evaluations about the purchase will likely impact how consumers ultimately feel about the purchase and whether or not they will purchase the product again.

Three main things are evaluated after purchase: customer satisfaction, cognitive dissonance, and loyalty. Customer satisfaction is the first evaluation.

Customer satisfaction is a state that is achieved when companies meet the needs and expectations customers have for their goods or services. If the product purchased meets expectations (for instance, it works well, it performs as described, and the buying experience was as expected), consumers will most likely be satisfied with the purchase.

In many cases, consumers experience **cognitive dissonance**, which is the mental conflict that occurs when consumers acquire new information that contradicts their beliefs or assumptions about the purchase. Cognitive dissonance, also known as *buyer's regret*, often arises when consumers begin to wonder if they made the right purchase decision. Cognitive dissonance after making a purchase can arise for numerous reasons. For example, perhaps you discover that the car you just bought doesn't get the gas mileage you'd expected or you find out someone you know bought the same car for a lower price. Marketers do various things to reduce the level of dissonance felt by consumers. A car company might offer an extended warranty, a price-match guarantee, or a no-questions-asked return policy. Reducing cognitive dissonance is important to keeping customers satisfied.

By helping consumers feel better about their purchase, marketers increase the likelihood that those consumers will remain satisfied to the point of becoming loyal to the product. **Loyalty** is an accrued satisfaction over time that results in repeat purchases. In addition, loyalty can increase consumer actions, such as positive word of mouth, reviews, and/or advocacy for the product.

Because the post-purchase period has such potential to affect long-term results, many companies work just as hard *after* the sale as they do *during* the sales process to keep the customer satisfied.

Influences on Consumer Behavior

Numerous factors affect the consumer decision-making process at every stage. These include psychological, situational and personal, sociocultural, and involvement influences. An effective marketing strategy must take these factors into account. The following sections provide an overview of the different influences and how marketers incorporate them into their marketing activities and strategies.



Psychological Influences on Consumer Behavior

Through the course of the consumer decision-making process, consumers engage in certain psychological processes: they develop *attitudes* about a product's

meaning to their lives, they *learn* about the product, and they must be *motivated* to purchase the product. Marketers need to understand each of these psychological processes as they develop strategies to reach consumers.

Attitude

An **attitude** is a consumer's overall evaluation of a product, which involves general feelings of like or dislike. Attitudes can significantly affect consumer behavior. For example, many consumers have strong positive feelings about Whole Foods because they appreciate the high-quality products it offers. Conversely, many consumers have strong negative feelings about Whole Foods, terming it "Whole Paycheck" because it charges premium prices for its products. These diverse positions represent different attitudes.

Attitudes can be both an obstacle and an advantage to a marketer. Choosing to discount or ignore consumers' attitudes toward a particular good or service when developing a marketing strategy guarantees the campaign will enjoy only limited success. In contrast, perceptive marketers leverage their understanding of attitudes to predict the behavior of consumers and develop a marketing strategy that reflects that behavior.

Learning

Learning refers to the modification of behavior that occurs over time due to experiences and other external stimuli. Consumer learning may or may not result from things marketers do; however, almost all consumer behavior is learned. Marketers can influence consumer learning, and, by doing so, impact consumer decisions and strengthen consumer relationships, but they must first understand the basic learning process.

Learning typically begins with a stimulus that encourages consumers to act to reduce a need or want, followed by a response, which attempts to satisfy that need or want. Marketers can provide cues through things like advertisements that encourage a consumer to satisfy a need or want using the firm's good or service. Reinforcement of the learning process occurs when the response reduces the need. For example, eating a pizza reduces hunger and an immediate need for food. Consistent reinforcement satisfied by a particular type of pizza (Sicilian, plain, veggie, pepperoni) can lead the consumer to make the same purchase decision repeatedly as matter of habit. Think about it, when you're hungry, do you tend to put a lot of thought into what pizza to buy or where to buy it?

Marketers can capitalize on consumer learning by designing marketing strategies that promote reinforcement. Bounty has promoted its paper towels using the slogan "the quicker picker upper" for more than 40 years. Through repetition in promotion, the company hopes to influence consumer learning by associating Bounty with the idea of cleaning up spills quickly. The strategy has worked: Bounty remains the market share leader in paper towels and continues to grow in sales volume even as other paper towel brands have faced years of declines.

Learning is important in the consumer decision-making process. When a consumer learns that a product or service satisfies a need and solves a problem, that

product or service moves up to the top of the information search the next time the consumer recognizes a problem.

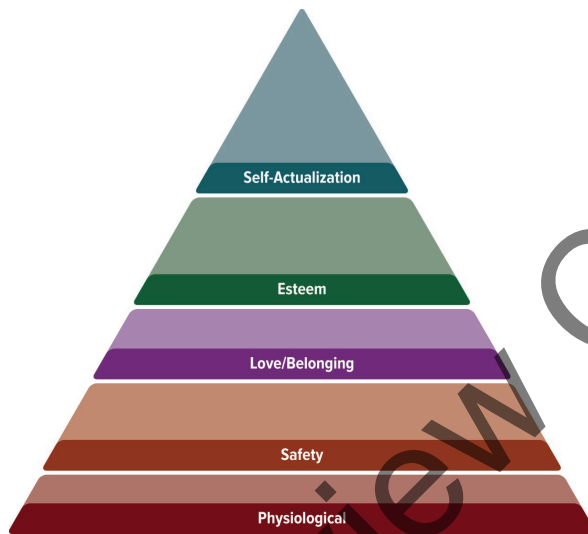
Motivation

A third psychological process that affects consumer behavior is motivation.

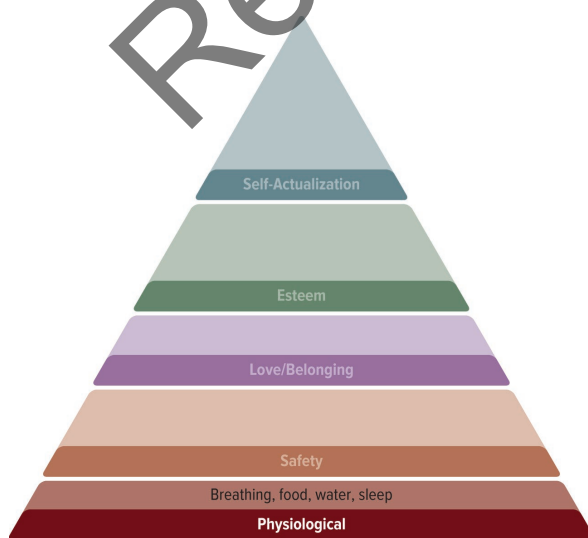
Motivation is the inward drive people have to get what they need or want.

Marketers spend billions of dollars on research to understand how they can motivate people to buy their products. One of the most well-known models for understanding consumer motivation was developed by Abraham Maslow in the mid-1900s. He theorized that humans have various types of needs, from simple needs such as water and sleep to complex needs such as love and self-esteem.

Maslow's hierarchy of needs illustrates the belief that people are motivated to meet their basic needs before fulfilling higher-level needs.

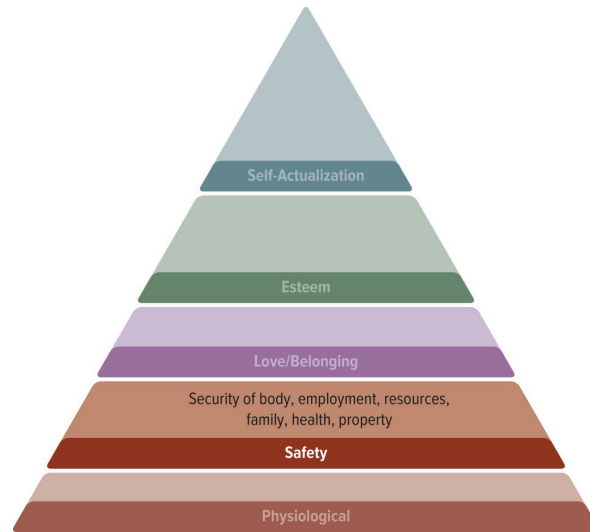


Maslow's Hierarchy of Needs has five levels organized in a pyramid shape, with levels ordered from bottom to top.

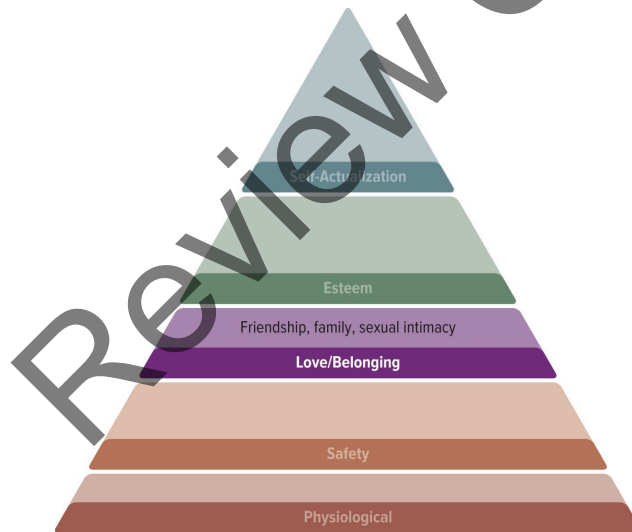


A consumer who lacks food, safety, love, and esteem would consider food his or her greatest need and, according to Maslow, would seek to fulfill that need before any of the others. Marketers of food, bottled water, and medicine are often focused

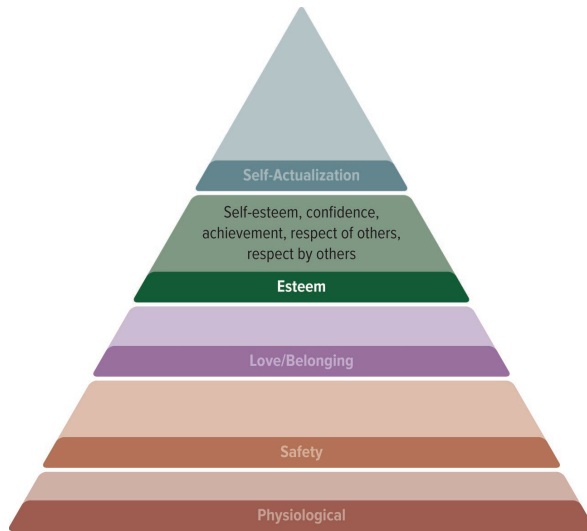
on meeting the **physiological needs** of their target customers. This level represents the most basic of human needs.



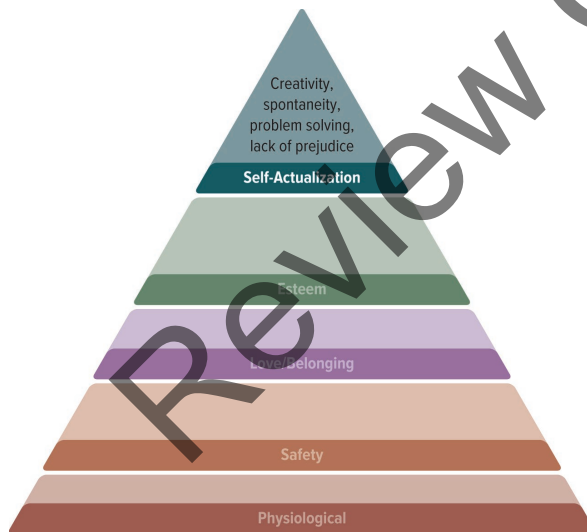
Safety can take different forms, including physical safety and economic safety. For example, the absence of economic safety—due to economic crisis or lack of job opportunities—leads consumers to want job security, savings accounts, insurance policies, and reasonable disability accommodations. Marketers match products to these types of needs because they know consumers will be motivated to buy them.



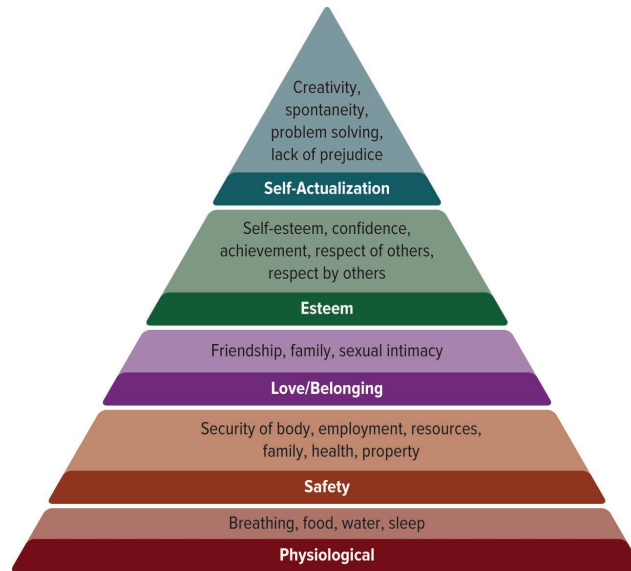
The third level of human needs, after physiological and safety needs are fulfilled, involves **love and belonging**. Love has become big business for marketers. The online dating site eHarmony was founded to serve this need by establishing its brand as the site for the serious relationship seeker.



Esteem is the need all humans have to be respected by others as well as by themselves. Lower esteem needs include the need for the respect of others. Jewelry stores and luxury car makers often target their marketing at consumers with lower esteem needs or those looking to increase their status or prestige. Higher esteem needs include the need for self-respect, competence, and mastery. For example, makers of foreign language education software market their products as a way for consumers to fulfill a lifelong dream of speaking a new language.



Maslow describes the top tier of the hierarchy as the aspiration to become everything that one is capable of becoming. **Self-actualization** pertains to what a consumer's full potential is and the need to realize that potential. For example, one individual may have a strong desire to become an ideal parent, another may want to become a superior athlete, and another may want to excel at painting, photography, or inventing.



Situational and Personal Influences on Consumer Behavior

Situational and personal influences on the consumer decision-making process include factors such as time, personality, lifestyle, values, and surroundings.

Time

Consumers value their time greatly, and time considerations often affect their purchasing decisions. Companies throughout the world understand this about their customers, so they will design goods and services accordingly. For example, banks have created apps that allow banking to occur without a customer ever needing to step foot inside an actual bank (think mobile check deposits). Reducing the time a consumer spends interacting with a firm is vital in almost all consumer settings.

Time can also impact what consumers ultimately pay for a good or service. Consumers are often willing to pay more for products if the placement of those products saves them time. For example, though a consumer may realize that milk, eggs, or bread are significantly more expensive at a small, local grocery than they might be at a larger chain supermarket farther away, that consumer might be willing to pay more for these items for the convenience of shopping closer to home and checking out more quickly. By placing products in a more accessible location, marketers can often increase their profits on individual items while still providing value to their customers.

Immediacy of the need plays a role in how fast the buying process occurs. If a product is needed now, such as a replacement dishwasher, the time to elaborate on choices before making a decision will be shortened. However, if a new dishwasher is needed for the remodeling of a kitchen that is occurring in a few months, more time is available to elaborate on the decision. Often consumers are forced to skip steps in the buying process in response to an emergency or immediate need.

Personality

Personality is the set of distinctive characteristics that lead an individual to respond in a consistent way to certain situations. A consumer's personality might include traits that make them confident, personable, deferential, adaptable, or dominant. Personality strongly influences a consumer's decision to purchase products. For example, shopping at Whole Foods might demonstrate a consumer's passion for locally grown organic products, whereas shopping at Walmart might represent an individual's commitment to frugal spending. Marketing professionals strive to identify personality traits that distinguish large groups of people from each other and then design strategies that best appeal to those consumers.

Lifestyle

Lifestyle is a person's typical way of life as expressed by his or her activities, interests, and opinions. For example, Whole Foods's overall marketing message focuses on exceptional products that cater to individuals that appreciate healthy living. Lifestyle characteristics are often easier for a firm to understand and measure than personality traits because it is relatively easy to observe how consumers express themselves in social and cultural settings. Marketers can potentially reach their targeted consumers by sponsoring events related to interests or activities those consumers are passionate about, or through social media advertising.

Values

Think about how your personal value system influences how you live your life. It is likely that your value system also corresponds to your buying behavior.

Values reflect a consumer's belief that a specific behavior is socially or personally preferable to another behavior. Personal values, which include everything from a consumer's religious beliefs to a belief in self-responsibility, can impact the decision-making process. For example, many consumers look for goods and services that embrace sustainability—that is, products intended to benefit the environment, society, and the economy. Firms take into account consumer values to design specific products, such as BPA-free water bottles or LED bulbs. Marketers then message the products as eco-friendly to appeal to customers' sense of environmental responsibility.

DON'T BUY THIS JACKET



It's Black Friday, the day in the year retail firms from red to black and starts to make real money. But Black Friday, and the culture of consumption it reflects, puts the economy of natural systems that support all life into the red. We're now using the resources of one and a half planets on our one and only planet.

Because Patagonia wants to be in business for a good long time—and have a world inhabitable for our kids—we want to do the opposite of every other business today. We ask you to buy less and to reflect before you spend a dime on this jacket or anything else.

Environmental bankruptcy, as with corporate bankruptcy, can happen very slowly, then all at once. This is what we face unless we slow down, then reverse the damage. We're coming down on fresh water, topsoil, fisheries, wetlands—at all our planet's natural systems and resources that support business, and life, including our own.

The environmental cost of everything we make is astounding. Consider the R¹ Jacket shown, one of our best sellers. To make it required 130 liters of water, enough to meet the daily needs of three people in a day for 40 people. To journey from its origin as 60% recycled polyester to our Reno warehouse generated nearly 20 pounds of carbon dioxide, 24 times the weight of the finished product. This jacket, left behind, on its way to Reno, two thirds its weight in waste.

And this is a 60% recycled polyester jacket, best and seem to a high standard. It is exceptionally durable, so you won't have to replace it as often. And when it comes to the end of its useful life we'll take it back to recycle into a product of equal value. But, as is true of all the things we can make and you can buy, this jacket comes with an environmental cost higher than its price.

There is much to be done and plenty for us all to do. Don't buy what you don't need. Think twice before you buy anything. Go to patagonia.com/Common Threads and scan the QR code below. patagonia.com/Common Threads includes pledge, and give us in the fifth "R," to reimagine a world where we take only what nature can replace.

COMMON THREADS INITIATIVE

REDUCE
WE make useful gear that lasts a long time
YOU don't buy what you don't need

REPAIR
WE help you repair your Patagonia gear
YOU design to fix what's broken

REUSE
WE help find a home for Patagonia gear
YOU no longer need
YOU sell or pass it on

RECYCLE
WE will take back your Patagonia gear
that is worn out
YOU design to keep your stuff out of the landfill and incinerator

REIMAGINE
TOGETHER we reimagine a world where we take only what nature can replace

patagonia
patagonia.com

*If you and your loved Patagonia product are off! and take the Common Threads Initiative pledge, we will do our best to get your product on patagonia.com for no additional charge.
© 2011 Patagonia, Inc.

USE THE PLEDGE

In this ad by clothing company Patagonia, people are told not to buy its apparel. This message was a counterintuitive attempt to appeal to consumers' concerns about environmental responsibility and sustainability.

Surroundings

Often, factors in our surroundings influence our decision-making process. Have you ever been in a grocery store that smelled bad? If you have, chances are pretty likely that you might have questioned the quality of the food products at that grocery store. Or, if you've ever had to choose between two different fitness centers, you might decide to join the one that features more modern equipment and has a more open and friendly workout space. Crowd size is another factor that can influence consumer behavior; if the crowd at the mall on the day of a huge sale is too large, it might deter you from shopping there that day. Conversely, if you notice a restaurant with just a few people dining in it during the busiest part of the day, you might be less likely to eat there.

Sociocultural Influences on Consumer Behavior

Sociocultural factors develop from a consumer's relationships with others and can significantly impact his or her buying behavior. Sociocultural influences that impact the consumer decision-making process include family members, reference groups, and opinion leaders.

Family Influences

Family members are one of the greatest influences on consumer behavior. The level of influence can vary across families and can evolve as a family ages and new members join the family through marriage or birth. The composition of families has changed greatly in recent decades to include more single parents and same-sex households, which can impact consumer decisions in different ways important to marketers. For some cultures, family is the primary influence. It can be a central theme for marketers seeking to target Hispanic market segments in both the United States and throughout the world.

Children often greatly influence a household's purchase decisions, particularly when it comes to grocery shopping and dining out. Marketers at McDonald's, Sonic, and Burger King spend a significant amount of money advertising to young consumers, giving away toys and books with their kids' meals. McDonald's has dedicated an entire website, www.happymeal.com, to marketing to children through games and technology. These promotions aimed at children can enhance restaurant traffic and revenues. However, marketing food to children has become a controversial topic for firms. Some suggest that marketing to children is unethical because children are impressionable and can be easily manipulated by marketing messages. Thus, marketers must practice caution when marketing to children so as not to take advantage of them.

Few situational factors have a more significant impact on consumer behavior than the family life cycle. The **family life cycle** describes the distinct family-related phases that an individual progresses through over the course of his or her life time. There are six stages that an individual might go through as part of his or her family life cycle:

1. Unmarried
2. Married with no kids
3. Married with small children or tweens
4. Married with teens
5. Married without dependent children
6. Unmarried survivor

Each stage impacts consumer behavior, and therefore a firm's marketing strategy to that consumer. Companies like State Farm Insurance actively promote their ability to service consumers throughout the entire family life cycle. They promote products and services that help customers insure their first car, secure family life insurance, and invest for retirement. In addition to family, consumers typically belong to or come into contact with various other social groups—schools, workplaces, churches, and volunteer groups—that can influence their purchase decisions.

1. Single



Single

This stage is characterized by **individual spending** (such as fitness, fashion, dating, travel, hobbies, etc.).

2. Married



Married

This stage is characterized by personal **couple's** spending (travel, self-improvement, work clothing, fine dining, education, etc.).

3. Young Family



Young Family

This stage is characterized by **family spending** on infants and toddlers (such as diapers, baby food, clothing, safety equipment, daycare, etc.) and tweens (sports equipment, summer camps, fast food, clothing, etc.).

4. Family with Teens



Family with Teens

This stage is characterized by spending on **teens** (such as college funds, cars, fashion, travel, technology, etc.).

5. Empty Nest



Empty Nest

This stage is characterized by **future spending** (such as travel, retirement planning, first homes, cars, etc.).

6. Survivor



Survivor

This stage is characterized by **freedom spending** (such as travel, hobbies, grandchildren) and **health** (doctor fees, insurance, medication, etc.).

Reference groups can provide consumers with a new perspective on how to live their lives. When you accept your first job, how will you know what to wear on your first day at work? You might recall what you saw people around the office wearing when you interviewed. In such a case, your coworkers serve as your reference group. A **reference group** is made up of the people to whom a consumer compares himself or herself. Marketers should understand that the more public the purchase decision, the more impact reference groups are likely to have. For example, reference groups tend to significantly influence a consumer's clothing purchases.

Firms typically focus on three consumer reference groups when developing a marketing strategy: **membership reference groups**, **aspirational reference groups**, and **dissociative reference groups**.

Membership Reference Group



A membership reference group is the group to which a consumer actually belongs. Membership groups could include school clubs, fraternities and sororities, and the workplace.

Marketers who understand the influence other members of these groups have on consumers can target products that would be ideal for the group members. For example, a local bank might market itself as the official bank of your university and offer a debit card featuring the school's logo.

Aspirational Reference Group



An aspirational reference group refers to the individuals a consumer would like to emulate. For example, professional athletes represent an ideal for many people. Serena Williams, who was ranked world No. 1 in singles by the Women's Tennis Association from 2002 to 2017, is one such iconic sports figure. She is featured in an inspirational Gatorade ad speaking to her newborn daughter, and in so doing, delivering a greater message to all

young girls interested in sports, or aspiring to be an athlete: "Whether your bond is by blood or by ball, whether she shares the color of your skin or the color of your jersey, you'll find sisters in sweat."*

Dissociative Reference Group



Dissociative reference groups include people that an individual would *not* like to emulate. Teenagers and young adults tend to actively dissociate themselves from groups they view as "uncool" or in which their parents might express interest. But dissociative reference groups can play a role in marketing to all consumers. Marketers for mouthwash and certain types of chewing gum encourage consumers to

use their products as a way to avoid being associated with those who have bad breath.

Opinion Leaders

Individuals who exert an unequal amount of influence on the decisions of others because they are considered knowledgeable about particular products are called **opinion leaders**. Opinion leaders range from Michael Jordan endorsing a pair of Nike shoes to Rachael Ray promoting a specific type of cooking utensil.

Opinion leaders are not just celebrities; social media allow small numbers of consumers to influence the consumer decisions of a much larger group. More marketers are trying to tap into the power of these social media opinion leaders through rewards and other benefits. For example, credit card companies offer special rewards to customers who have the potential to influence others; airlines give these same types of opinion leaders free flights in an effort to encourage them to use their influence on behalf of the company's products.

Involvement Influences on Consumer Behavior

How consumers make choices is influenced by their level of involvement in the decision process. **Involvement** is the personal, financial, and social significance of the decision being made. The study of high and low involvement focuses on how consumers choose which alternative to purchase and is important for firms to understand as they develop strategies to sell their products.

Characteristics of Purchasing Decisions

	Low-Involvement Purchase	High-Involvement Purchase
	Usually inexpensive products that pose a low risk to the consumer if the purchase ends up being a mistake.	More significant purchases that carry a greater risk to the consumer if the purchase ends up being a mistake.
		
Price	inexpensive	expensive
Preparation	requires little forethought	requires research
Frequency	frequently purchased	rarely purchased
Risk	limited risk	high risk

Low-Involvement Buying Decisions

Most likely, you have made an impulse purchase sometime in the past month. Impulse buying is purchasing a product with no planning or forethought. Buying gum in a grocery store checkout line or a new cap that you notice as you walk through a mall are examples of impulse buying. Impulse purchases usually occur with low-involvement products. **Low-involvement products** are inexpensive products that can be purchased without much forethought and with some frequency.

Consumers often do not recognize their desire for a low-involvement product until they are in the store, which influences the strategic decisions for marketing these items. In-store promotion, for example, is a very useful tool for marketing low-involvement products. Unique packaging or special displays help to capture the consumer's attention and quickly explain the product's purpose and benefits. Marketing strategies for low-involvement products include Kellogg's signage at Walmart stores explaining the relatively low cost of eating breakfast at home versus at a restaurant, or a promotional sign by Sara Lee in a grocery store aisle that focuses on a promotion for its "soft and smooth bread." Tactics like low-tech cardboard displays found at the end of aisles can potentially drive more impulse purchases than temporary price reductions.




High-Involvement Buying Decisions

High-involvement products include more significant purchases that carry a greater risk to consumers if they fail. Two common examples of high-involvement purchases are a car and a house. Companies that market high-involvement products must provide potential consumers with extensive and helpful information as they go through the decision-making process. An informative advertisement can outline to the consumer the major benefits of a specific product purchase. Residential brokerage firm Coldwell Banker provides a wealth of information about the homes it is attempting to sell to help potential buyers understand more about the house itself as well as about local schools, financing options, and moving services.

Variations of the Consumer Purchase Decision Process

Marketers must be aware that there are three variations of the consumer buying process. All start with recognition of a need, but follow a slightly different path based on if the consumer purchase is the result of a *routine*, *limited*, or an *extended* problem-solving decision. For regularly purchased products, the consumer will not go through all the steps of the decision process. These products are typically low-involvement purchases. On the other extreme, for first-time purchased products, the consumer will engage in extended problem solving and most likely go through all the steps. These purchases require more involvement from the customer. The differences between these variations are highlighted in the table that follows.

Variations of the Consumer Buying Process

	Routine Problem Solving	Limited Problem Solving	Extended Problem Solving
Example	Toothpaste 	New Cell Phone 	New Car 
Frequency of Purchase	Regularly	Occasionally	Infrequently or never
Experience in Purchasing	Experienced	Some experience	None or little experience
Level of Involvement	Usually low level	Mid-level	High level
Coverage of Decision-Making Stages:			
<i>Problem Recognition</i>	Yes	Yes	Yes
<i>Information Search</i>	No	Limited amount	Yes
<i>Evaluation of Alternatives</i>	No	Limited amount	Yes
<i>Purchase</i>	Yes	Yes	Yes
<i>Post-Purchase Evaluation</i>	Limited amount	Yes	Yes

Marketing Analytics: Using Data to Understand Consumer Behavior

Using Research to Develop Predictive Models of Consumer Behavior

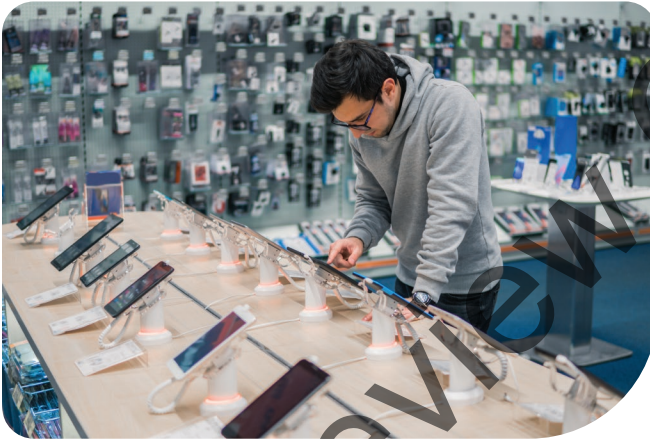
The models used in consumer behavior were developed primarily in psychology and were based on theories of how people think and behave. In marketing we are primarily interested in how consumers think and behave in a *marketplace*. Firms use data to convert these theories into workable models that could be used to predict how consumers will respond to market offerings. Often to evaluate these models fully, ongoing data collection must be conducted. For example, consumer satisfaction measures are often created from survey data. Consider the surveys you might find at the end of a receipt from a store or restaurant. The data from these surveys inform the consumer's post-purchase evaluation stage and give firms the information they need to ensure they are fully satisfying a consumer's needs.

Understanding Influences on Consumers

What motivates a consumer to choose one product over another is a complex process that involves both physical and psychological states. These states are influenced by the broader environments in which consumers live. To truly understand these influences, marketers must collect and analyze data from these different environments, including the economic, demographic, political/legal, technological, competitive, and sociocultural environments.

Improvements in technology have changed how consumers interact with the market—for example, data show that more and more consumers are shopping online versus at brick-and-mortar stores. Economic data trackers, such as the Consumer Confidence Index, allow marketers to better understand how consumers are feeling about making big purchases. Marketers must stay on top of changes in the political/legal environment as well, and consider the impact these changes have not only on consumer behavior, but also on consumer access. For example, in some states consumers are able to order wine from online merchants, whereas in other states this is against the law. Regulations can be written that prohibit or limit consumer's access to such products, so marketers must take this into consideration when making marketing decisions. The physical environment, such as global climate change, is also influencing consumer behavior. Data reveal a growing interest in the purchase of more sustainable products—from automobiles to food to clothing and even travel. Using data that track the changes in these environments allows marketers to make predictions about what will happen next for consumers. It also adds a new dimension to their strategic planning.

Models of Consumer Decision Making



Not only can marketers use consumer decision-making models to understand consumers, but consumers can also use these models to help *them* make marketplace decisions. For routine or known problem solving, most consumers use an established method of decision making; they buy whatever they bought before (based

on previous experience) to solve their market problem. In such cases, they often do not evaluate other alternatives. This form of decision making is called **noncompensatory decision making**.

For novel problems that involve some level of risk, consumers will consider multiple decision-making criteria and a more complex decision-making process. This form of decision making is called **compensatory decision making**. In this model, consumers assign **weights**, measures of importance or preference, to the various criteria they've predetermined. Assigning weights—for instance, on a scale of 1 to 5, with 5 being most important and 1 being least important—is a way for consumers to evaluate how different product options compare overall to each other.

The weights that consumers assign to the same set of criteria will vary with each consumer. Let's consider the criteria involved in purchasing a car: price, comfort, fuel economy, and style. Consumer A may rate style as more important than price, whereas Consumer B may rate price as the most important criterion of all. The sum (or score) of these weights, known as the **weighted preference**, will be used to make a purchase decision. After completing this exercise, some consumers may find that the product they thought they originally wanted is now, in fact, no longer the

same product they end up buying. For example, a couple planning a wedding may have decided they wanted to marry in a specific location because it holds special meaning for them. They have three other venues in mind as well. They evaluate all their options using the compensatory decision-making model, considering location, cost, ease of access for guests, and catering options. After assigning weights to each of these criteria and calculating the weighted scores, the couple realizes that their original choice of venue is not the best option for them after all.

Responsible Marketing

Patagonia and Consumer Decision Making: Sustainability and Beyond

During the consumer purchase decision process, certain psychological, situational, personal, sociocultural, and involvement influences can affect a consumer's decision to purchase. What mood is the customer in? What values does the customer have that affect shopping behavior? What is the state of the economy? With so many options available to consumers and so many factors affecting purchasing decisions, it can be difficult for companies to convert sales. One company that has grown its customer base and continues to attract customers with shared values is Patagonia.

The text references Patagonia and its unusual campaign strategy in 2011, which told people to not buy its apparel. This campaign was designed to bring attention to the company's position on sustainability (ironically, Patagonia sales increased by 30 percent that year). In subsequent years, Patagonia has amplified its mission and promotion of sustainability. The company resells gently worn items on its website and encourages customers to turn in used products for credit. This is in keeping with its customers' values; a 2017 survey indicated that 69 percent of Patagonia customers said they were concerned where the products come from.

While Patagonia has increased awareness of sustainability, COVID-19 has greatly impacted consumer behavior. Euromonitor reported that "73% of professionals believe sustainability efforts are critical to success"; however, with many customers forced to order merchandise online during the pandemic, 51 percent reported an increased use of plastics. How Patagonia will deal with these and other challenges to sustainability in the future remains to be seen.

Reflection Questions

1. Consider the five steps in the consumer purchase decision process. What are considerations a Patagonia customer might make in each step?
2. What are some potential psychological, situational, personal, sociocultural, or involvement influences on Patagonia customers in their decision-making process?
3. How has COVID-19 impacted consumer behavior and how may it affect Patagonia's message going forward?

Lesson 6-3

Business-to-Business Marketing

This lesson will explain how businesses that sell to other businesses market their products and services. Marketing to business customers involves some similar and many different types of activities than those used in B2C marketing. For example, as a consumer, you may be familiar with Champion products. However, have you considered the importance of the retail relationships that Champion has to develop to have a successful brand?

By the end of this lesson you will be able to

- Describe the buyer–seller relationship.
- Describe the different types of buying situations.
- Recognize the major forms of B2B e-marketing.
- Outline the steps in the B2B buying process.
- Define buying centers, how they influence organizational purchasing, and the roles of their members.

Champion: Becoming “Cool” Again

Have you ever heard of Champion? Originally called the Knickerbocker Knitting Company, Champion was founded as a family business in 1919. It started out selling athletic uniforms for the University of Michigan and gained traction with its durability and comfort. Growing in style and notoriety, Champion obtained partnerships with the National Collegiate Athletic Association (NCAA) in the 1960s, the National Football League (NFL) in the 1970s, and the National Basketball Association (NBA) in the 1990s.

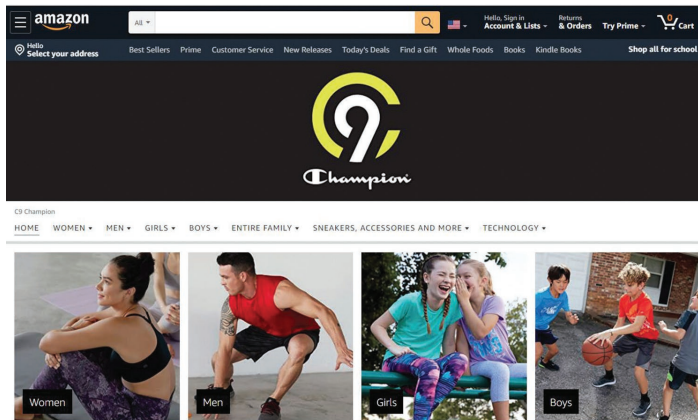
After years of partnerships with collegiate and professional sports, demand for the brand waned. Consumer demand shifted from what turned into the “frugal dad” look to new brands such as Lululemon and Under Armour.

So how did Champion become trendy again? For starters, in 2006 the Sara Lee Corporation spun off HanesBrands to contain all of its clothing brands, including Champion, when it no longer had time for “niche businesses” and became fully invested in the food industry. Champion started partnering with trendy brands such as Supreme, UNDEFEATED, and Vetements with the mindset that if it wanted to become “cool” again, it had to partner with trending brands.

As Champion began making its comeback, vintage clothing and athleisure were also becoming popular. Thus, products designed around these trends were created for maximum hype and designer brand partnerships. Currently focused more on pop culture than sports, Champion clothing can be found in trendy clothing stores such as Zumiez, Urban Outfitters, PacSun, and more.

So who is HanesBrands, and how does it get Champion products into the hands of consumers? HanesBrandsb2b.com is the business-to-business website that

business partners can order from directly. This wholesale website puts business customers in control of their order. Hanes makes it easy for businesses big or small to order with no minimum order quantity, receive fast and affordable shipping, chooses from drop shipping options, and have access to bestselling brands.



In March 2020, HanesBrands teamed up with Amazon offering the C9 Champion performance athletic wear as part of a multiyear partnership. More than 100 styles from C9 Champion will be available via Amazon's online store, providing consumers with a new channel to access the brand. HanesBrands signed a multiyear agreement for the C9 Champion Athleticwear brand to be sold exclusively through Amazon.

Factors Affecting Business-to-Business Marketing

As noted in the introduction to this lesson, **business-to-business (B2B) marketing** consists of marketing to organizations that acquire goods and services in the production of other goods and services that are then sold or supplied to another business or consumer groups.

B2B marketers face many of the same challenges B2C marketers do, as both work to connect or build relationships with their customers. However, unlike in B2C marketing, where marketing is targeted at individual consumers, in B2B marketing, marketing is targeted at **professional purchasers or buyers**—employees of companies who make purchase decisions in the best interest of their organizations. Because of this, B2B marketing is based on long-term relationships that are often maintained among multiple people from the selling firm and a group of people from the buying center of a purchasing company. In addition, B2B buyers and sellers are motivated by derived demand for products rather than individual decision making based on personal needs and wants. Let's look at each of these factors in a bit more detail.

Professional Purchasing

Businesses typically buy things through professional purchasing managers who are experienced in the policies and procedures necessary to make a large deal. For example, a professional buyer at Old Navy will be responsible for purchasing the

clothing styles and accessories that will eventually be featured in Old Navy's stores. Because businesses strategically plan well into the future, the B2B purchasing process is often far longer than the consumer decision-making process. In addition, the B2B buying process requires standardized procedures, such as a request for proposal (RFP) and contract negotiations, which are not typically found in consumer buying. Finally, the strategic nature of business purchasing removes much of the emotion and personal interest from purchase decisions. For example, Sysco is a large wholesale distributor of food and beverage products. A buyer–seller relationship at Sysco may involve discussion of the sale/purchase of 200 cases of tomato soup for a large catering event. It should be easy to see how the buyer of a large quantity of soup will be more strategic and less emotionally invested in the purchase than he or she would be in a personal decision to buy a new iPhone or concert tickets.

Importance of the Buyer–Seller Relationship

In addition to buyers being professionals, business marketers typically deal with far fewer buyers than consumer marketers. Usually, each of these customers is larger and more essential to the firm's success than a consumer because there are fewer business buyers. For example, the potential demand for pizza is almost unlimited in the United States. However, the demand for large-scale pizza ovens is confined to medium and large pizza establishments, many of which belong to Pizza Hut, Little Caesars, and other major national chains.

Because there are fewer buyers, B2B marketers feel even more pressure to make sure they offer high-quality products to and establish good business relationships with their customers. A B2B **buyer–seller relationship** is a connection between a firm and/or its employees intended to result in mutually beneficial outcomes. B2B buyer–seller relationships are critical because a bad relationship with an individual pizza consumer might cost the local Pizza Hut \$20 per week, whereas a bad B2B relationship with Pizza Hut might cost a pizza oven maker its entire annual profit or even its future.

Derived Demand

The need for business goods comes from demand for consumer goods. **Derived demand** occurs when demand for one product occurs because of demand for a related product. Even though Sysco, for example, does not sell directly to consumers, the success of its business depends on the buying patterns of individual consumers. Derived demand also provides an important reason to develop mutually beneficial relationships with B2B partners.

Imagine a scenario in which Sysco has a contract as the only provider of food to campus dining at your school. Because Sysco is the only supplier, it has the option to charge far more than is necessary for the goods it sells, thereby maximizing profit. However, if Sysco chooses to charge your university higher prices, the university, in turn, will have to pass on those cost increases to students like you. Once the price of campus dining gets too high, you and other students will simply find other places to eat. In turn, overall student demand for cafeteria meals will decrease, thereby decreasing the university's need for Sysco's products.

This scenario illustrates why marketers must take a strategic view of business relationships and understand all of the potential impacts their actions can have on derived demand.



The Different Types of Buyer–Seller Relationships

B2B marketing professionals focus on and maintain relationships with buyers who work in different business markets. In addition, within each market buyer–seller relationships can vary. Let's discuss different business markets and the continuum of business relationships.

Reseller Markets

Resellers include retailers and wholesalers that buy finished goods and resell them for a profit. A retailer, such as a clothing or grocery store, sells mainly to end-user consumers like you. A **wholesaler** is a firm that sells goods to anyone other than an end-user consumer. Sysco is a perfect example of a wholesaler. Wholesalers frequently purchase a large quantity of a good (e.g., 200,000 pounds of hamburger meat) at a low cost and then sell off smaller quantities of the good (e.g., 20-pound cases of hamburger meat sold to restaurants) at a higher per-unit price. Thus, wholesalers are often called intermediaries because they don't produce products, they just process them.

Government Markets

Government markets include thousands of federal, state, and local entities that purchase everything from heavy equipment to paperclips. The U.S. government is one of the world's largest customers, spending billions of dollars a year. Marketing goods and services to the U.S. government requires adherence to certain policies, procedures, and documentation obligations. Because the public holds the government accountable for its purchases, complex buying procedures are often

used to ensure that purchases meet the necessary requirements. Firms must be detail oriented and complete extensive documentation to succeed at marketing to federal agencies and departments. For example, Mississippi-based Gulf Coast Produce spent considerable time and resources winning a government contract to provide millions of dollars in fruits and vegetables to the military. This complicated and often slow process has made some marketers, especially in small businesses, reluctant to bid on government business. Of the 20 million small businesses in the United States, only about 500,000 of them have completed the documentation necessary to be eligible to sell to the government. However, government markets can be highly lucrative for smart marketers and organizations.

Institutional Markets

Institutional markets represent a wide variety of organizations, including hospitals, schools, churches, and nonprofit organizations. Institutional markets can vary widely in their buying practices. For example, a megachurch with thousands of members and a multimillion-dollar budget will likely have a buying manager for firms to work with, whereas marketing to a new church with a small congregation might simply require speaking with the pastor. These diverse buying situations pose unique challenges for institutional marketers. They must develop flexible, customized solutions that meet the needs of differently sized organizations. Educating institutional customers about how specific goods and services can make their organizations more efficient or effective is a firm's best tool for selling products in this type of market. For example, marketers for a medical technology firm could show a hospital how their customized technology solutions can reduce costs for the hospital while improving patient care.

Reseller Market

Nordstrom is an example of the reseller market. Nordstrom processes products as they come in through a distribution center, and resells them by such brands as Madewell, Patagonia, and Clinique to the end consumer.



Government Market

The government is a huge user of food products. The Armed Forces, federal cafeterias, and even the White House all purchase food on behalf of the government. Sellers to government commissaries (foodservices) must comply with complex and specific regulations to do business with the government.



Institutional Market

School lunch is just one example of an institutional market for food products. Though many schools and institutions are government run, they are a category of their own. Schools, hospitals, and nursing homes are regulated by different organizations and standards that require sellers to comply with specific guidelines and policies.

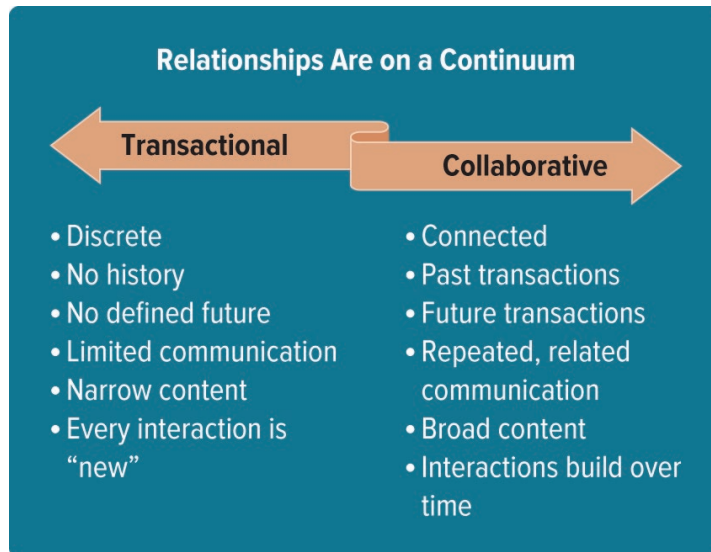
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Continuum of Buyer–Seller Relationships

B2B relationships are often described as being somewhere on a continuum, which means they vary but fall within a range of two different types:

- **Transactional relationships:** On one end of the continuum, relationships are transactional, which means they are based on low prices, commodity products, and are not usually stable in the long term. The pure **transactional relationship** exists where both parties protect their own interests and where partners do things for each other purely as an exchange.
 - ▶ Many organizations, for example, purchase office supplies like printer paper, staples, paper clips, and pens. While the organization may have a relationship with the provider they work with, many of these purchases are just transactional. Organizations mostly look for the best price for these types of products.
- **Collaborative relationships:** At the other end of the continuum, relationships are collaborative, which means that both parties in the relationship are highly engaged and dependent on working with each other for a long time. The **collaborative relationship** occurs when both parties share resources (e.g., financial risk, knowledge, and employees) in an effort to attain a common goal that provides beneficial outcomes to both parties.
 - ▶ It is important for Champion to work closely with its retail partners. The success of the retailer and the success of Champion are often tied together. Champion is dependent on its retail partners to advance and build the Champion brand. As retailers are often the final interface with consumers and advocates for the brands they sell, Champion must provide its retail partners with information and materials to educate the consumers they serve.

Most B2B relationships fall somewhere between transactional and collaborative. In many cases, one firm may act as a transactional partner for some products and a collaborative partner for others. Thus, selling firms must evaluate the relationships they maintain with their buyers and invest their resources accordingly.



B2B Relationship Continuum. This continuum shows how B2B relationships vary but fall within a range of two different types: transactional and collaborative.

Buying Situations

Although the types of B2B customers can vary, the buying situations for each are often quite similar. Marketers can classify B2B buying situations into three general categories.

A **new buy** involves a business customer purchasing a product for the first time. For example, let's say that Dell is looking to market its personal computers to a college that has not previously bought from the company. Because the college has little or no experience with Dell, its decision process will likely be extensive, with the college requiring a significant amount of information and negotiation. From a marketing standpoint, Dell's reputation for meeting specifications and providing high-quality service to its current business and college customers could prove to be a critical factor in selling to the college for the first time.

A **straight rebuy** occurs when a business customer signals its satisfaction by agreeing to purchase the same product at the same price. B2B marketers prefer the straight rebuy outcome to any other because straight rebuys normally do not require any additional design modifications or contract negotiations. Another major advantage of a straight rebuy is that the customer typically does not look for competing bids from other companies. To revisit the Dell example, in a straight rebuy scenario, Dell should work hard to produce high-quality computers at a competitive price and offer great service that makes the college feel good about its purchase decision. Marketers who make it as easy as possible for customers to do business with their firm increase the likelihood that the customers will perceive value and develop loyalty.

A **modified rebuy** occurs when the customers' needs change or they are not completely satisfied with the product they purchased. In our Dell example, the college might want Dell to modify its computers to add additional features, lower its

prices, or reduce delivery times to get new products to the school. Modified rebuys provide marketers with both positive and negative feedback. By buying from Dell again, the college signals that it is pleased with at least certain parts of its purchase experience. However, modified rebuys can also be negative if the college asks Dell to reduce its price or modify design characteristics to a point where the agreement no longer earns Dell a profit. If Dell agrees to terms that cause the company to lose money, its long-term health as an organization could be in jeopardy. Thus, the ability to walk away from potential modified rebuys provides marketers with an important tool that should be used to negotiate a positive solution that works for both the buyer and seller.

Regardless of what type of business customer B2B marketers are selling to or what type of buying situation they're in, B2B marketing should seek to create, communicate, and deliver value to customers in a way that is ultimately profitable, just as marketers would with individual consumers.

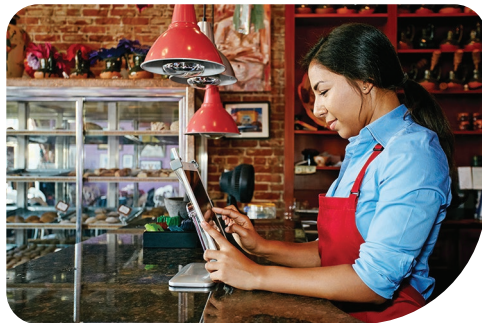
New Buy

For Sysco, *new buys* will come from new customers or by expansion of what an existing customer purchases. Acquiring new buys takes much of a salesperson's time and effort. However, once a new buy is established, it becomes a *rebuy*, which takes less effort and is the basis of a seller's recurring business portfolio. Thus, much time is spent developing new buys with new or existing customers.



Straight Rebuy

For *straight rebuy* situations, like weekly ordering at a restaurant to replenish inventories, Sysco foodservice provides an online and mobile application. Because straight rebuys require the least amount of effort for both the buyer and seller, e-commerce is an effective way to accomplish them without extra hassle.



Modified Rebuy

A *modified rebuy* for a Sysco salesperson may require that specialists in menu planning or meal preparation be consulted to resolve any issues with the original product order. Sysco invests heavily in test kitchens and services to help restaurant chefs find the right solution and taste portfolio for their customers.



The Forms of B2B E-Marketing

B2B marketers use several digital marketing tools to reach their customers, many of which are very similar to consumer marketing, and many that are not. Major B2B e-marketing tools include websites, mobile applications, e-commerce platforms, social media, and other forms of communication.

Websites

B2B website marketing is similar to consumer website marketing. B2B companies are expected to have a quality website that contains useful information concerning the company's products, services, and contacts. B2B marketing websites do pay special attention to a few additional things, often not included in consumer websites. For example, B2B websites may contain highly technical information and specifications concerning the selling firm's products. Inclusion of deeper levels of information and specifics of a product is useful to professional buyers who require more specific information than is typically available to consumers. Champion is a good example of a company that provides its retailers with a great deal of information about its products. This helps the retailers sell Champion products better.

Mobile Applications

In addition to websites, B2B sellers offer mobile applications that help their customers have real-time access to their accounts and orders on a mobile platform. Integration of a supplier's mobile technology into a buyer's supply chain flow is a good way to keep everyone in the process (e.g., purchasing, logistics, accounting, and manufacturing) informed. For example, Sysco's mobile application allows customers to access inventory levels in real time, track delivery status, review accounting statements, and even message with delivery drivers. Having a value-adding, time-saving application in a B2B setting is becoming a way that selling firms can create competitive advantage over those vying for a customer's business.

E-Commerce Platforms

E-commerce allows buyers and sellers to conduct exchange through a digital channel. For B2B firms, e-commerce is most closely associated with standard rebuy situations and transactional relationships. B2B sellers have traditionally facilitated exchange through a salesperson who meets with a buyer on a regular basis in an effort to collect orders and communicate them to the selling firm. In many cases, e-commerce eliminates this function of salespeople. However, most salespeople look at this change as positive because it allows them to focus on more important customer needs, such as customized solutions and new buys, or modified rebuys, while less complex orders process electronically. One important consideration for B2B e-commerce is security. This is similar to consumer e-commerce, but B2B e-commerce security is concerned with cyberattack and competitor security. To reduce security risks, most B2B e-commerce sites are accessed through permission of the selling firm that is granted only to customers.

Social Media

B2B firms use social media to keep their customers informed and to learn about their customers. In many B2B settings, social media have become an effective way for customers to interact with each other as well as interact with selling firms. The use of forums, blogs, and groups allows engagement to occur around a firm or product. This type of engagement, especially B2B customer-to-customer engagement, is helping firms get more immediate feedback on their products and customers to learn new ways to use a product or to solve a problem. For example, Sysco Foodservice has a LinkedIn page that has more than 90,000 followers, which allows Sysco to disseminate new information about the company quickly.

Other Forms of Communication

New forms of e-marketing are helping B2B marketers be more in touch with their customers than ever. **Enablement tools** are applications that streamline buyer–seller engagement in an effort to improve the customer’s experience. Customer relationship management (CRM) systems are the basis of enablement tools. CRM allows sellers to manage their relationships with customers more effectively by closely tracking the activities and needs of customers. Enablement tools use CRM information to automate communications and follow up on customer needs. Today, tasks that once were time-consuming sales and marketing burdens are handled through enablement tools. From proactively predicting customer orders to delivery reminders, enablement tools are changing how and when B2B firms communicate with their customers in an effort to keep customers highly engaged.



The B2B Buying Process

The B2B buying process involves research and strategic planning. As information and access to specific seller details have become more available to B2B buyers, the timing of when a seller becomes involved has changed. Sellers used to be involved in the strategic process early, as a conduit to needed information (specifications, prices, availability, etc.). Today, sellers often become involved in the process much later, with some firms estimating as late as 70 percent of the way through the process. This change in where and whom the information comes from is reflected in the process that professional buyers follow to make B2B purchase decisions, which we show in the figure below and discuss next.

The B2B Buying Process



Step 1: A Need Is Recognized

At some level of the organization, a need is recognized. Need recognition can come from any functional area, for example, new product development, operations, and/or information technology. New product development typically generates needs as a new product is developed, such as a new plastic formulation, a new type of product label, or an innovative sealing process. Operations often realize needs in the area of manufacturing machinery, plant safety, or energy efficiency. Information technology often identifies needs such as new software, hardware upgrades, or security enhancements. All of these needs eventually are communicated to the department in charge of purchasing, where the procurement process starts.

Step 2: The Need Is Described and Quantified

The buying center, or group of people brought together to help make the buying decision, considers the need that has been communicated and develops parameters of what needs to be purchased. In some cases, this is easy (rebuy) because a good deal is known about what is needed. In other cases, this is difficult (new buy) because what is needed is totally new and different from what is normally purchased by the firm. Specifications of the needed product are determined, such as features, amount required, where it is needed, and method of delivery. Technical or complex products require users of the new product to define the product's technical specifications. When the details are well defined, the type of product will be clear—does this product already exist or does it need to be custom made?

Step 3: Potential Suppliers Are Researched

At this stage, purchasers seek information about the product they need and the vendors that can supply the product. Online research allows most of this stage to be completed without contacting potential suppliers. Purchasers may also investigate industry forum websites and blogs of industry experts. Professional buyers often play a key role when it comes to deciding which vendors are the most qualified. Some strategic questions are also addressed in this stage, such as: Is the supplier reliable and financially stable? Where is the supplier located and will logistics be an issue? Does the supplier have enough inventory or capacity to deliver what is needed? Typically, at the end of this stage only a few qualified vendors are identified as probable suppliers.

Step 4: Requests for Proposal Are Sought

The next step is to get supplier quotes for supplying the needed product. It is important to note that to this point in the process, many purchasers will not have contacted a seller. In the past, suppliers would have been consulted much earlier

in the process, but often they are now first contacted when most specifications are already decided. A **request for proposal (RFP)** is a formal listing of specifications for a needed product that is sent to a supplier firm asked to bid on supplying the product. The RFP clearly states what is needed and asks the supplier to submit a proposal for the business that includes specifics on factors such as quality, price, financing, delivery, and after-sales service. Most RFPs also include a strict deadline that indicates when competing proposals will be considered. Because in many cases this is the first time the supplier hears about the need, good sales and marketing professionals go deeper than just providing what is asked for in the RFP. Rather, selling firms use the RFP to investigate the buyer's problems and needs and how to adapt their offers to solve those problems and needs.

Step 5: Proposals Are Evaluated and Suppliers Are Selected

During this stage, the supplier responses to RFPs are reviewed and ultimately one supplier is chosen. Companies evaluate supplier responses differently, but all use some formula to evaluate what value will be realized from each supplier's offer. Many things can indicate value differently, such as high levels of service or quality that one firm offers but others do not, or innovative solutions. In the end, the lowest-priced bid may not be the one chosen, as many variables are considered in determining the best value.

Step 6: The Order Is Placed

Once a supplier has been selected, the agreement is finalized. Finalizing an agreement can be simple or complex depending on the buying situation. For example, a restaurant that decides to buy taco shells from Sysco likely just needs to complete some simple paperwork. However, a government agency that decides to purchase a missile system from a defense contractor likely involves a team of lawyers to finalize the details of the sale.

Step 7: A Post-Purchase Review Is Conducted

Once a purchase is complete, buyers conduct a review of how well the order was fulfilled. The review can be simple—did the order arrive on time and correctly?—or it can be a complex and formal process. Regardless, “getting it right” is important for suppliers that desire to continue supplying the needs of a customer.

The Influence of Buying Centers and the Roles of Their Members

Many buying decisions are complex and require decisions by multiple members of a buying center. A **B2B buying center** is a group of people responsible for strategically obtaining products needed by the firm. The buying center is everyone involved in any way in the B2B buying process. This includes the purchasing manager who places the order, the manager or executives who approve the purchase, and anyone who recognizes a purchase need. Buying center roles are informal and are not built into the company's corporate hierarchy. It is important

that sellers be able to determine all the decision makers in the buying process. In an engineering firm, for example, the engineers may be the ones making buying decisions; in a goods production firm it may be product managers, and in a small company almost everyone may be involved.

Because many people are involved in buying centers, it is important to understand the roles they may play in purchase decisions. Several different general buying center roles exist. Let's discuss the role of each.

Users

Users are the individuals who will use the product once it is acquired. Users often make specifications about what the product needs and start the buying process.

Gatekeepers

Gatekeepers control the flow of information into the company that all other users review in making a purchasing decision. A personal assistant can be a gatekeeper by deciding who gets appointments with buyers and deciders.

Deciders

A **decider** is the person who chooses the good or service that the company is going to buy. The decider may not actually make the purchase but decides what will be purchased. This role can be filled by many people ranging from the CEO of the company in a large purchase decision, to the head engineer on a project, to an individual office manager buying office supplies.

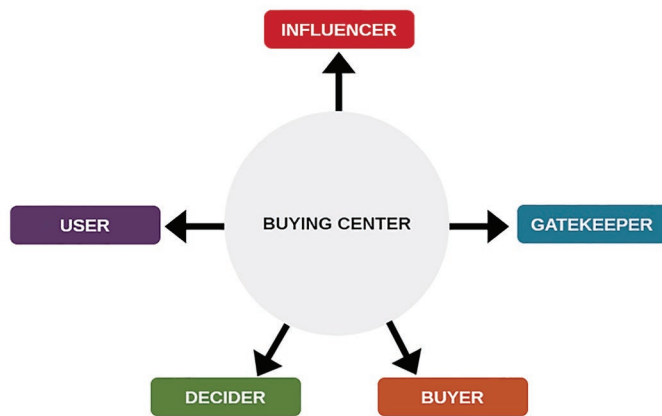
Influencers

Influencers affect the buying decision by giving opinions or setting buying specifications. IT personnel and those with special knowledge on projects are often important influencers.

Buyers

Buyers are those who submit the purchase to the salesperson. This role is often more formal, such as a purchasing manager. Many firms also have specialized buyers, trained to help negotiate for the best prices of materials for the firm.

The buying center can be different across firms, and even across decisions within firms. Thus, not every role is present in all purchasing decisions. However, understanding who is performing which role, and which roles are a factor in decision making, is critical to firms that wish to effectively win a sale of their product.



Responsible Marketing

Transparency and Communication in B2B Marketing

B2B marketing occurs when the customer is another business or organization. Business customers behave differently than traditional consumers, and are often engaged in significant purchase decisions that impact their ability to perform their own business or organizational functions.

We could explore a variety of responsible marketing challenges in the B2B context, but one of the most prevalent involves pricing. Because of the unique structure of B2B relationships, pricing can change by customer in a way that's different from consumers.

Consider the following fictional scenario:

Tom is a sales associate for a top robotic equipment manufacturing company that makes robotic arms for production lines for software companies. The product Tom sells is very specialized and there is little competition, yet a lot of demand, in the market.

One of Tom's main clients is Gary. Gary has been a customer for 15 years and has been a lucrative customer. Gary and Tom are also good friends. Gary tells Tom that his business suffered during COVID-19 and asked for a discount on a big order of 12 new robotic arms. Tom agreed, valuing the relationship with Gary, and offered a 20% discount off the normal asking price.

Phil is a potential new customer of Tom. Tom just read an article that Phil's firm just received \$100 million in investment funding. Tom believes that Phil has a lot of money for the robotic arms and could be a great customer long term. In order to compensate for the lost revenue with Gary, Tom decides to charge Phil 20% over the normal asking price for the robotic arms. Phil, not knowing any better, agrees to the price.



Reflection Questions

1. Do you feel that Tom's behaviors are ethical or unethical? Explain your answer.
2. Should Tom charge both customers the same price?

Review Copy

Understanding Your Customer: Test

- When customers look beyond their personal knowledge and experience to help them in buying something, they are engaging in
 - ritual consumption.
 - external information search.
 - cognitive dissonance.
 - business-to-business marketing.
 - self-actualization.
- Robin, a 28-year-old fashion designer, is very finicky about the brands that she consumes as a customer. She believes in buying brands that she has previously used. When Robin walks into Brown and Grey, a supermarket, she is most likely to engage in _____ to buy toothpaste and mouthwash.
 - cognitive dissonance
 - an evaluation of alternatives
 - an internal information search
 - impulse buying
 - business-to-business marketing
- Tom recently bought a pair of headphones, XOB 10, from Blue for \$99. Within a month, Tom's friend, Leo, bought a brand new pair of headphones XGD 20, released by Soundz, online at a reduced price of \$86. Tom tried the XGD 20 and found it to be significantly better than the XOB 10. In this scenario, Tom is most likely to experience
 - cognitive dissonance.
 - self-actualization.
 - problem recognition.
 - external information search.
 - criteria evaluation.
- Consumer learning typically begins with
 - knowing that a particular product exists.
 - a response which attempts to satisfy a need or want.
 - reinforcement that a particular product satisfies a need or want.
 - cues that discourage the use of a particular product.
 - a stimulus that encourages consumers to act to reduce a need or want.
- According to Maslow's hierarchy of needs, once their physical needs have been satisfied, consumers' _____ take precedence.
 - need for belonging
 - safety needs
 - esteem needs
 - self-actualization needs
 - need for food
- Which of the following exemplifies impulse buying in a supermarket?
 - Picking up a candy bar while waiting in line at the checkout counter
 - Remembering to buy toothpaste while browsing the groceries sections
 - Buying an reasonably priced watch from the accessories sections
 - Picking up a bottle of wine to go with meat
 - Opting for a different brand of tissues from the usual brand
- Jerome has a dish full of dirty dishes and has run out of his favorite dishwashing liquid, so he heads to the corner market to pick up a new bottle. This type of consumer purchase exemplifies which variation of the consumer buying process?
 - extended problem solving
 - motivated purchase
 - high-involvement purchase
 - routine problem solving
 - limited problem solving

8. The soles of Asha's Asics running shoes are wearing thin, so she needs to purchase a new pair. She knows the style she has worn the last two years has been updated, so she plans to purchase the same brand, but in the updated style. This type of purchase is considered a limited problem-solving purchase.
- ☒ A. TRUE
 - ☐ B. FALSE
9. Hassan is getting ready to purchase his first home. His involvement throughout the buying process will likely be mid-level because this purchase is considered an extend problem-solving purchase.
- ☐ A. TRUE
 - ☒ B. FALSE
10. In order to ensure that firms sell more products more profitably, marketers need only to understand *why* individuals and organizations make their purchases.
- ☐ A. TRUE
 - ☒ B. FALSE
11. In which of the following would primary data be *most* helpful to a firm?
- ☒ A. determining whether price cuts on store-branded products impact what products consumers buy
 - ☐ B. determining the competition's prices and inventory
 - ☐ C. understanding the international market for its products
 - ☐ D. identifying which in areas to open a second location
 - ☐ E. determining interest rates before deciding whether to expand
12. A toy company is testing kites to see which one can be flown the highest. In this example, which of the following would be considered a dependent variable?
- ☒ A. the height the kite can be flown
 - ☐ B. the temperature at the time the kite is flown
 - ☐ C. the wind conditions at the time the kite is flown
 - ☐ D. the type of kite being flown
 - ☐ E. the person flying the kite
13. Antoine wants to know if his main rival in organic baked goods is increasing its prices. He talks to his rival's distributors, suppliers, and some of his rival's customers to get this information. Antoine is engaging in
- ☐ A. data mining.
 - ☐ B. trending.
 - ☐ C. user research.
 - ☐ D. usage studies.
 - ☒ E. competitive intelligence.
14. The marketing research industry relies on ethical standards to help gain the trust of consumers. Establishing trust
- ☒ A. increases individuals' willingness to participate in research.
 - ☐ B. ensures accurate research results.
 - ☐ C. informs companies when to cease research.
 - ☐ D. decreases the cost of research.
 - ☐ E. increases the cost of research.
15. The Blooms & Blossoms company has been selling its garden supplies to retail outlets for years. The company has decided it wants to tap into new markets, so it is looking to sell its garden supplies to county institutions for planting gardens in public parks. If the county institutions purchase the Blooms & Blossoms garden supplies, it would be an example of a(n)
- ☐ A. modified rebuy.
 - ☐ B. first buy.
 - ☒ C. new buy.
 - ☐ D. straight rebuy.
 - ☐ E. institutional buy.

16. Fenton orders the same office stationery each month for the same price from the same supplier. This is an example of a
- A. modified rebuy.
 - B. quick buy.
 - C. continual buy.
 - D. new buy.
 - ☒ E. straight rebuy.
17. A B2B seller can use mobile applications to create a competitive advantage by integrating its mobile technology into the its own supply chain.
- A. TRUE
 - ☒ B. FALSE
18. E-commerce is *most* likely to be associated with which type of B2B buying situation?
- A. modified rebuy
 - B. collaborative relationship
 - C. new buy
 - ☒ D. transactional relationship
 - E. relationship marketing
19. This application is a type of enablement tool.
- ☒ A. delivery reminder
 - B. CRM system
 - C. e-commerce platform
 - D. social media presence
 - E. mobile application
20. Someone who is acting as an influencer in the buying center may be best illustrated by which of the following scenarios?
- A. The firm's purchasing agent has been asked to get the price of office supplies down before committing to the purchase.
 - B. The company's CEO has said that the head engineer will choose what surveying equipment the company will buy.
 - C. All information flow from potential suppliers is filtered through the executive assistant who makes appointments and distributes what he has received to different members of the buying center.
 - D. The members of the call center have stated that the desks that are to be purchased for them must be adjustable so that they can have the option of standing.
 - ☒ E. While discussing an upgrade to the company's computer software, the head of IT discussed current trends in computing that she would like the company to consider.

7 Accounting and Financial Statements

What To Expect

By the end of this lesson, you will be able to:

- Explain the purpose of accounting, as it relates to users of financial data and a company's success.
- Explain how a business's financial information is organized utilizing the six-step accounting process, in accordance with GAAP.

Chapter Topics

- **7-1** What Is Accounting?
- **7-2** Financial Statements: The Balance Sheet
- **7-3** Financial Statements: The Income Statement
- **7-4** Financial Statements: The Cash Flow Statement
- **7-5** Financial Ratios



What Is Accounting?

Glitz n' Glamour: Naomi's Predicament

“Why Can't I Get Ahead?”

Naomi, a talented fashionista and small boutique owner, sighs heavily as she sinks into the chair across from her friend. Her friend, Luke, nods sympathetically. In the three years since she became an entrepreneur, Naomi's frustrations with her business, Glitz n' Glamour, have only grown.

In fact, it seems that every time they meet, she is struggling with the same mystery—she cannot understand why her seemingly “booming” business still isn't making a profit.



I just don't get it! Why am I not making any money? I work every day—even weekends!

Still? Wow. I mean, the store seems like business is booming! My wife said it was packed when she dropped in yesterday.



Yeah, things have really picked up in the last eight months, but when the bills come in, we always come up short. It's like all of those extra sales have had no impact at all. There must be something that I'm doing wrong.

Maybe it's marketing? Or, what about your financial records—are they accurate? I have a friend who is taking some business courses; would you like me to connect you?



Oh, would you? I'll take any help I can get.

Sure; why not? I'll make a call tonight. Let's meet back here tomorrow and I'll let you know what we discuss.

The next day, Naomi and Luke meet up to talk about his conversation with his friend.



Naomi, great news! My friend is happy to help you out. The best place to start is looking over your books with your accountant. You can set up a meeting, right? Or, if your accountant isn't available, I'm sure going through your books will be a good start. Naomi? Are you okay?



Whoa! Slow down! My books? My accountant? I don't have either of those. I mean, my business is really small, so I haven't really been managing it any differently than my personal spending. Is all of that really necessary?

Uh oh. It looks like Naomi is lacking key knowledge in the area of accounting. As a result, her business is underperforming, impacting her profits, and quite possibly jeopardizing the future success of Glitz n' Glamour.

In this lesson, we will work together to teach Naomi the fundamental accounting knowledge and skills she needs to implement appropriate accounting practices, build key financial statements, and analyze her business to make better (and more informed) business decisions and gain new insight on how to control her costs and increase her profits.

Accounting and Bookkeeping

Our first challenge is to help Naomi understand what accounting is, and why she should let us help her get her business on track using accounting functions.

Accounting measures, classifies, analyzes, and communicates financial information to people inside and outside a company.

Bookkeeping is one function of accounting, which includes recording a company's financial transactions.

Although many people (falsely) assume that all accountants are bookkeepers, accounting is more than just bookkeeping. Engaging in proper accounting functions can help business owners, employees, and outside parties—like suppliers or investors—make informed financial decisions.

Types and Functions of Accounting

Although it can seem daunting at first, accounting can be broken into two distinct types, with three different kinds of accounting professionals. Let's break it down.

Functions of Accounting

Managerial accounting is concerned with preparing accounting information and analyses for managers and other decision makers inside an organization.

Financial accounting is concerned with preparing accounting information and analyses primarily for people outside of the organization, such as stockholders, government agencies, creditors, lenders, suppliers, unions, customers, consumer groups, and so on.

Managerial Accounting	Financial Accounting
<ul style="list-style-type: none"> • Prepare accounting information and analyses for managers and decision makers. • Prepare and monitor department and company-wide budgets. • Analyze the costs of production and marketing. • Manage and control inventory and production costs. 	<ul style="list-style-type: none"> • Prepare accounting information and analyses for people outside of the organization. • Perform audits to ensure accuracy of the financial information. • Prepare and file taxes and other documents for government agencies.

Managerial Accounting



Who uses managerial accounting?

Managers: use accounting info to make plans and guide the company to achieve goals and outcomes set by the business

Production managers: use sales forecasts to set production levels

Marketing managers: use accounting info to evaluate the impact of promotion strategies

Employees: use accounting info to evaluate the impact of promotion strategies

Financial Accounting



Who uses financial accounting?

Stockholders, investors: evaluate firm's financial health to see how well the firm is doing and whether it is profitable

Managers: plan, set goals, control

Employees: measure financial health

Lenders and suppliers: evaluate credit ratings

Government agencies: confirm taxes and regulatory compliance

Who Uses Accounting?

Types of Accountants

There are three types of accountants. **Private accountants** are internal accountants working for a single organization. On the other hand, **public accountants** provide accounting services to clients on a fee basis. Lastly, **not-for-profit accountants** work for governments and nonprofit organizations and perform the same services as for-profit accounts—except they're concerned primarily with efficiency, not profits. As entrepreneurs start their businesses, they may need to decide which one is their best fit.



- Private accountants work for a single company or firm like Netflix.
- Public accountants work for many clients such as Glitz n' Glamour.
- Not-for-profit accountants specialize in nonprofit organizations such as the Red Cross.

Decisions



Hi Luke!

Hey Naomi! What's up?



Just overwhelmed, as usual.

Oh no, not again. Did you contact that _____ I told you about? You know, the accountant that is available to hire on a contract basis?

- A. certified public accountant (CPA)
- B. financial analyst
- C. work-for-hire
- D. private accountant





No, but I am going to this afternoon. Her name was Chitra, right? I'm hoping she can help, but what I really need is someone who will be able to look at my financials and tell me some options of what I need to do.

You're in luck, she specializes in _____, and she works with business owners to help them get their entire business under control from a numbers point of view.

- A. financial accountning
- B. managerial accounting
- C. tax accounting
- D. CNA accoutning



Luke, you are totally getting my hopes up! I sure hope she can help me because I don't have the money to hire a(n) _____ to work here with me part-time, let alone full-time.

- A. public accountant
- B. in-house accountant
- C. private accountant
- D. broker

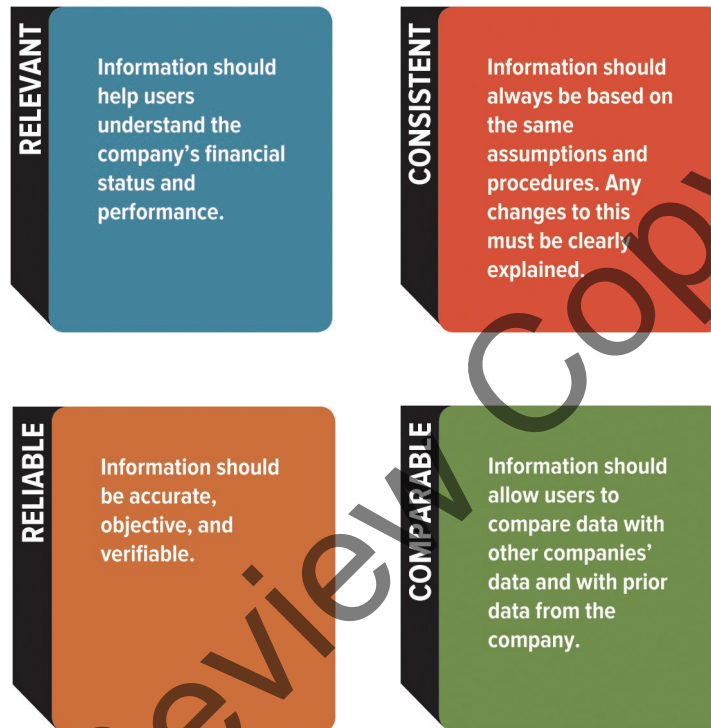
Yes, hiring on someone would cost quite a bit of money. I'm anxious to hear what you think of Chitra after your meeting today. Keep me posted!



Correct Answers: A; B; C

GAAP: The Trademark of a Reputable Accountant

Accounting relies on *standards*, known as **Generally Accepted Accounting Principles (GAAP)**, which ensure that financial statements are relevant, reliable, consistent, and comparable. When financial statements are consistent and comparable, stakeholders can compare them with earlier statements within the company and with statements from other companies.



The Six-Step Accounting Process

To create *relevant*, *reliable*, *consistent*, and *comparable* financial statements, we must apply the **accounting process**, which involves six activities: collection, recording, classification, summarization, reporting, and analysis.

An adept accountant will:

1. Locate and sort records (collection).
2. Record daily transactions in journals (recording).
3. Organize journal entries in categories within a ledger (classification).

- 4. Test the accuracy of the ledger by running a trial balance (summarization).
- 5. Issue financial statements (reporting).
- 6. Assess the firm’s financial condition via ratio analysis (analysis).

Collect: Find and Sort Records of Relevant Business Transactions

The accounting process begins by collecting the results of bookkeeping—that is, the records of all relevant business **transactions**: sales invoices, cash receipts, travel records, shipping documents, and so on. Today, many or most of these transactions exist as computerized data. The transactions are analyzed by the bookkeeper and sorted into meaningful categories according to various strategies, some of which involve ways of reducing tax obligations.

At Glitz n’ Glamour, the business should be counting the revenue received from each sales transaction on a daily basis into an accounting system or spreadsheet. The company would also want to enter any data related to travel, shipping, or other transactions made to help run the business.

Record: Put Daily Transactions in Journals, Using Double-Entry Bookkeeping

The bookkeeper then records financial data from the original transaction documents in a journal, a record book, or part of a computer program containing the daily record of the firm’s transactions, including a brief description of each.

At Glitz n’ Glamour, the individual tasked with bookkeeping would want to ensure the transactions are accurately recorded into the firm’s accounting system.

Double Entry Accounting System

The format for recording each journal entry is known as **double-entry bookkeeping** because each transaction is recorded in two different accounts to make sure each add up to the same amount, as a check on errors. Thus, if a bookkeeper enters \$9.49 in one place, but mistakenly puts \$9.94 in another, when the two accounts don’t produce the same total it will be a tip-off that an error occurred.

With double-entry bookkeeping, notice that for each **debit**, there is an equal and opposite **credit**. Thus, the total of all debits must equal the total of all credits. If they don’t, obviously an error has occurred. Recording each transaction as both a debit and a credit keeps the books in balance, as we’ll discuss with the balance sheet.

Example: Single-Entry Versus Double-Entry Bookkeeping

If you run a bicycle repair shop, a *single-entry bookkeeping transaction* to repair a tire would appear as follows:

Date	Service or Sale	Revenues	Expenses
February 6	Tire repair	\$30.00	

A double-entry bookkeeping transaction would look like this:

Date	Service or Sale	Debit	Credit
February 6	Cash	\$30.00	
	Revenue		\$30.00

Classify: Put Journal Entries in Categories in a Ledger

Suppose you want to know what Naomi's **expenses** were for the past month. The **journal** will show these expenses scattered throughout, but not all lumped together. That is the purpose of the bookkeeper's transferring (usually on a monthly basis) journal entries to a **ledger**, a specialized record book or computer program that contains summaries of all journal transactions that are accumulated into specific categories. The ledger is divided into accounts, such as cash, inventories, and receivables.

At Glitz n' Glamour, the individual tasked with bookkeeping would want to ensure the transactions are accurately coded into the firm's accounting system.

Summarize: Test the Accuracy of Ledger Data by Running a Trial Balance

At the end of every accounting period (every three months, for example), the bookkeeper does a check for accuracy. This is known as running a **trial balance**, making a summary of all the data in the ledgers to see if the figures are accurate, or balanced. Balanced means both columns in the double-entry format have similar totals—they balance each other.

At Glitz n' Glamour, the individual tasked with bookkeeping creates the trial balance making sure that each column in the double-entry format have similar totals.

Report: Issue Financial Statements Such as the Balance Sheet, Income Statement, and Statement of Cash Flows

Once the bookkeeper has the correct figures, he or she (or the accountant) can use that summarized data to issue three reports, or financial statements—the balance sheet, the income statement, and the statement of cash flows. Most companies prepare computer-generated financial statements every month, three months (quarterly), or six months (semiannually). Financial reports may also be tied to two other matters—the organization's fiscal year and the release of its annual report.



Naomi can use this information to run reports and share with key stakeholders such as managers, employees, suppliers, banks, accountants, or investors.

The Fiscal Year

Financial reports are required of all publicly traded companies at the end of the firm's **fiscal year**, the 12-month period designated for annual financial reporting purposes. This period may coincide with the end of:

- The calendar year, January 1 to December 31.
- The U.S. government's fiscal year, October 1 to September 30; for firms with government contracts, financial reports may appear sometime after September 30.
- A particular industry's natural cycle. In agriculture, for example, it is September 1 to August 31 (when the harvest is over).

The Annual Report

After the fiscal year-end, a firm issues an **annual report**, showing its financial condition and outlook for the future. This report is utilized by managers and executives to evaluate the health of the business as well as to plan for the next fiscal year. This information is also used by shareholders and potential investors to evaluate the organization's financial performance.

Analyze: Assess The Company's Financial Condition, Using Ratio Analysis

With the financial statements in hand, the accountant can then make an assessment of the company's financial condition.

Naomi can now analyze Glitz n' Glamour using verified data and validated accounting practices to better understand the performance of her business as well as the company's financial condition.

Decisions

Help Naomi align her accounting process. Choose the step in the process that best aligns with the statement.

1. Glitz n' Glamour should be counting the revenue received from each sales transaction each day into an accounting system or spreadsheet. The company should also enter any data related to shipping or other expenses made to help run the business.
 - A. Summarize
 - B. Analyze
 - C. Record
 - D. Collect
 - E. Report
 - F. Classify

2. The individual tasked with bookkeeping should ensure the transactions are accurately recorded and coded into the firm's accounting system.
- A. Summarize
 - B. Correct.
 - C. Record
 - D. Collect
 - E. Classify
 - F. Report
 - G. Analyze
3. The individual responsible for bookkeeping would transfer journal entries into a ledger that shows the different account categories.
- A. Report
 - B. Collect
 - C. Summarize
 - D. Analyze
 - E. Record
 - F. Classify
4. Naomi can use this information to run reports and share with key stakeholders such as managers, employees, suppliers, banks, accountants, or investors.
- A. Analyze
 - B. Summarize
 - C. Collect
 - D. Classify
 - E. Record
 - F. Report
5. With the financial statements in hand, the accountant can then make an assessment of the company's financial condition. Naomi can now analyze Glitz n' Glamour using verified data and validated accounting practices to better understand the performance of her business as well as the company's financial condition.
- A. Collect
 - B. Report
 - C. Summarize
 - D. Analyze
 - E. Classify
 - F. Record

Correct Answers: 1. D; 2. C; 3. F; 4. F; 5. D

Lesson 7-2

Financial Statements: The Balance Sheet

By the end of this lesson, you will be able to:

- Using provided data, construct an accurate, well-organized balance sheet.

Naomi Studies the Numbers

“The Data Is in Disarray!”

Naomi has hired Chitra and is learning that her seemingly successful business isn't as healthy as it appears. She knows she needs some help understanding her financial statements and figuring out what to do.



Wow, I just looked at these financial reports. It's like reading a foreign language. The one thing I can tell is we have a lot less profit than I realized, and I am not sure how that happened. I know we have great products, awesome people, and we are implementing great processes. I want to use this information to grow our business. Do you think you can help me better understand these numbers and what they mean so I can better lead the company forward?

Definitely! Let's take a look at each of the financial statements. We will walk through them and then we'll look at some financial ratios to analyze the business.



Naomi seems very engaged and excited to learn more about her company's performance so she can better lead her company to growth and profitability. In this lesson, we will work together to teach her about one type of financial statement that is central to understanding her business: the balance sheet.

The Balance Sheet

Measuring the Health of a Business

Have you ever gone into the doctor for an annual check-up?

Healthy businesses use data to make informed decisions that will keep them healthy. In businesses, we utilize **financial statements** as metrics to analyze the health of the business. One of the primary statements used to measure a company's vitals is the **balance sheet**, which examines the overall health of the business.

As we begin to learn how to analyze the performance of a business, it is important to understand the key elements that make up the balance sheet.



The Accounting Equation

For a business to be successful it is mission critical for accountants, owners, and managers to understand the balance sheet. The **accounting equation** ensures that the balance sheet does exactly that—it balances. If applied correctly, total assets (things of value owned by a business) should equal total liabilities (what the business owes) plus owners' equity. Accountants employ the accounting equation to determine what a firm is worth.

The accounting equation is:



Reviewing a Balance Sheet

The balance sheet reports a firm's financial condition at a given time by showing its **assets, liabilities, and owners' equity**. It is called a balance sheet because it shows a balance between a firm's (a) assets and (b) liabilities plus owners' equity.

Although Naomi's accountant has prepared a balance sheet for Glitz n' Glamour, Naomi isn't sure how to read it. Let's use it to walk her through the basics and break down each section. Starting with the balance sheet in its totality.

You'll see it is laid out starting with the company's assets, which are the items the business has that are of value. Then you'll see the company's liabilities, what they owe to others, and lastly you'll see the company's owners' equity, which is reflective of both the owners' investments into the business, any **stock** sold to investors, and any earnings (profits) retained by the company.

The Balance Sheet

Glitz n' Glamour

Balance Sheet

	FY-2018	FY-2019
Current Assets		
Cash	\$ 9,000.00	\$ 15,500.00
Accounts Receivable	53,000.00	45,000.00
Inventory	80,000.00	76,000.00
Prepaid Expenses	9,500.00	8,900.00
Total Current Assets	151,500.00	145,400.00
Fixed Assets		
Land	100,000.00	100,000.00
Building	180,000.00	180,000.00
Less: Accumulated Depreciation	(2,000.00)	(4,000.00)
Equipment	47,000.00	50,000.00
Less: Accumulated Depreciation	(8,000.00)	(10,000.00)
Furniture and Fixtures	36,000.00	45,000.00
Less: Accumulated Depreciation	(6,000.00)	(7,000.00)
Total Fixed Assets	347,000.00	354,000.00
Intangible Assets		
Goodwill	23,000.00	19,600.00
Total Assets	521,500.00	519,000.00
Current Liabilities		
Accounts Payable	40,000.00	45,000.00
Current Portion Notes Payable	40,000.00	40,000.00
Total Current Liabilities	80,000.00	85,000.00
Long-term Liabilities		
Notes Payable	120,000.00	100,000.00
Mortgage Payable	280,000.00	270,000.00
Total Long-term Liabilities	400,000.00	370,000.00
Stockholders' Equity		
Common Stock	37,000.00	37,000.00
Retained Earnings	4,500.00	27,000.00
Total Stockholders' Equity	41,500.00	64,000.00
Total Liabilities and Stockholders' Equity	521,500.00	519,000.00

Let's dissect the balance sheet based on its component parts.

Assets: What Things of Value Do We Own?

A balance sheet always begins with the items the firm owns. This includes buildings, land, supplies, inventories, cash, money owed to the firm, patents, and trademarks.

The assets are then broken into current, fixed, and intangible.

Current Assets: Items That Can Be Converted to Cash within One Year

Current assets are defined as items that can be converted into cash within one year. This includes not only cash itself (currency and coin), but also marketable securities, accounts receivable, and merchandise inventory.

The essential characteristic of current assets is their **liquidity**. Current assets are easily converted into cash, whereas assets such as land and buildings are not. Besides cash, two common items found on most balance sheets include accounts receivable and inventory.

- **Accounts receivable** is the total amount owed to a firm from customers who have purchased goods or services on credit. Accounts receivable is often referred to as A/R.
- **Inventory** on the balance sheet refers to the value of the products or merchandise that is being held for resale to customers.

Additionally, some businesses may also show prepaid expenses and marketable securities as part of their current assets.

- **Marketable securities** are stocks, bonds, government securities, and money market certificates, which can be easily converted to cash.
- **Prepaid expenses** are expenditures that are paid for in one accounting period, even though assets will not be consumed until a later time. An example is insurance.

For Glitz n' Glamour we see that Naomi's business has current assets that include cash, accounts receivable, and inventory. Naomi has prepaid some of her expenses as well. These represent the current assets of the company.

Current Assets on the Balance Sheet

Glitz n' Glamour

Balance Sheet Breakout

	FY-2018	FY-2019
Current Assets		
Cash	\$ 9,000	\$ 15,500
Accounts Receivable	53,000	45,000
Inventory	80,000	76,000
Prepaid Expenses	9,500	8,900
Total Current Assets	151,500	145,400

Fixed Assets: Items Held for a Longer Time

Often called *property, plant, and equipment*, **fixed assets** are items that are held for a long time and are relatively permanent, such as land, buildings and improvements, equipment and vehicles, and furniture and fixtures. Fixed assets are expected to be used for several years.

Accumulated depreciation is the reduction in value of assets to reflect their wearing down or obsolescence over time.

For Glitz n' Glamour you'll see that Naomi's accountant has accounted for land, building, equipment, furniture, and fixtures, and then reduced the value by applying the accumulated depreciation.

Fixed Assets on the Balance Sheet

Glitz n' Glamour

Balance Sheet Breakout

	FY-2018	FY-2019
Fixed Assets		
Land	100,000	100,000
Building	180,000	180,000
Less: Accumulated Depreciation	(2,000) 178,000	(4,000) 176,000
Equipment	47,000	50,000
Less: Accumulated Depreciation	(8,000) 39,000	(10,000) 40,000
Furniture and Fixtures	36,000	45,000
Less: Accumulated Depreciation	(6,000) 30,000	(7,000) 38,000
Total Fixed Assets	347,000	354,000

Intangible Assets: Valuable Assets That Aren't Physical Objects

Intangible assets are assets that are not physical objects but are nonetheless valuable, such as patents, trademarks, and goodwill. **Goodwill** is an amount paid for a business beyond the value of its other assets, based on its reputation, customer list, loyal employees, and similar intangibles.

Naomi believes the Glitz n' Glamour brand is worth the amount noted on her balance sheet based on its reputation and the customer list she created over the years.

Intangible Assets on the Balance Sheet

Glitz n' Glamour

Balance Sheet Breakout

	FY-2018	FY-2019
Intangible Assets		
Goodwill	23,000	19,600

Understanding Liabilities: What Are Our Debts to Outsiders?

A **liability** is a debt owed by a firm to an outside individual or organization. Examples: Vendors may deliver supplies but not insist on immediate payment, allowing the firms 30 or 60 days to pay their bills. Banks may loan farmers money to enable them to operate, but want to be paid after the crop has been harvested and sold. Employees who have provided labor but not yet been paid also represent a debt to the firm.

Liabilities are of two types: current and long term.

Current Liabilities: Payments Due within One Year or Less

Current liabilities are obligations in which payments are due within one year or less. The most common current liabilities are accounts payable and notes payable.

- **Accounts payable** is money owed to others that the firm has not yet paid. If the company has not yet paid its electricity bill this month, that debt belongs in accounts payable. Accounts payable is commonly referred to as A/P.
- **Notes payable** is money owed on a loan based on a promise (either short term or long term) the firm made. If you arranged a bank loan, for example, you would be obligated to pay it back by a prearranged date.

Glitz n' Glamour currently has debts that it owes to vendors that we can see on there A/P. The company is also paying back some loans, which we can see through their notes payable.

Current Liabilities on the Balance Sheet

	FY-2018	FY-2019
Current Liabilities		
Accounts Payable	40,000	45,000
Current Portion Notes Payable	40,000	40,000
Total Current Liabilities	80,000	85,000

Long-Term Liabilities: Payments Due in One Year or More

Long-term liabilities are obligations in which payments are due in one year or more, such as a long-term loan from a bank or insurance company.

- Two common long-term liabilities are **notes payable** and **bonds payable**, long-term liabilities that represent money lent to the firm that must be paid off.
- In some cases, a business may also own property, and as a result, have a **mortgage** it must repay. Because those payments are structured over a long period of time, they are categorized as long-term liabilities.

Glitz n' Glamour has a long-term loan they are paying back. In addition, the business owns a building, which is why it has a mortgage listed under the long-term liabilities section.

Long-Term Liabilities on the Balance Sheet

Glitz n' Glamour

Balance Sheet Breakout

	FY-2018	FY-2019
Long-Term Liabilities		
Notes Payable	120,000	100,000
Mortgage Payable	280,000	270,000
Total Long-Term Liabilities	400,000	370,000

Owners' Equity: "What Is Our Value If We Were to Sell Our Assets and Pay Off Our Debts?"

Owners' equity, or stockholders' equity, represents the value of a firm if its assets were sold and its debts paid. Owners' equity is considered important because it is used to indicate a company's financial strength and stability. Before making loans to a company, for example, lenders want to know the amount of owners' equity in it.

Owners' equity consists of (1) common stock and (2) retained earnings.

- **Common stock** refers to ownership in a business. As it pertains to the balance sheet, common stock accounts for the amount of stock that has been allocated to owners of the company.
- **Retained earnings** are net profits minus **dividend** payments made to stockholders; that is, they are earnings retained by a firm for its own use—for buying more land and buildings, say, or acquiring other companies.

At Glitz n' Glamour, Naomi made the business decision to issue common stock to some investors, meaning she allowed individuals to invest money in her company, and as result they received equity through stock in the company. The value of the investment is shown on the balance sheet as common stock. She has also been keeping some of the annual profit, which appears as retained earnings for Glitz n' Glamour.

Owners' Equity on the Balance Sheet

Glitz n' Glamour

Balance Sheet Breakout

	FY-2018	FY-2019
Owners' Equity		
Common Stock	37,000	37,000
Retained Earnings	4,500	27,000
Total Owners' Equity	41,500	64,000

Decisions



Chitra, I sure am glad I hired you on as my CPA. I am lost when it comes to all this financial information.

No problem, and believe it or not, you will be making sense of this stuff in no time. It's probably best if we start by trying to figure out your net worth by looking at what you have and what you owe on the _____.

- A. asset statement
- B. balance sheet
- C. income statement
- D. statement of cash flows



Net worth? I'm sure it's negative by now!

Don't be too sure about that! We can find out pretty quickly if you're wrong. All we need to do is look at how your assets balance out against your liabilities. This is called the _____.

- A. asset paradox
- B. Pythagorean theorem
- C. fundamental accounting equation
- D. balance sheet equation





Alright, so if we assess what I owe, are we looking only at the _____? You know, the stuff I owe to people in the long term?

- A. short-term liabilities
- B. owners' equity
- C. long-term liabilities
- D. total liabilities

No, we will look at all your liabilities, and then we will compare that to your asset value. Once we do this, we will know your _____, and that will give us a good idea of where you stand currently.

- A. liquidity
- B. notes payable
- C. retained earnings
- D. owners' equity



Yes, I see what you are talking about now. At least this will give me a firm footing of how Glitz n' Glamour is doing right now! It's better to know than not to know. Let's see where we stand!

Correct Answers: B, C, D

Review

Lesson 7-3

Financial Statements: The Income Statement

By the end of this lesson, you will be able to:

- Using provided data, construct an accurate, well-organized income statement.

The Bottom Line: Profit and Loss

“Are We Making Money?”

Naomi is excited to learn more about financial statements and is anxious to better understand the income statement, so she meets with Chitra once more.



I just ran a report out of our software from last year's numbers: cost of goods sold, gross profit, gross sales, net profit, and net sales. I know there is a difference, and if I can get a hang of what's on this report, I can help our business grow and thrive! Do you think you can walk me through the income statement to help me better understand our numbers?

I know these terms seem a bit abstract, but once we go through them I think you'll be able to better understand how this statement is a reflection of all the hard work you and your team do, and it will give you an opportunity to see where you may want to make some adjustment to your business strategy.



Naomi is excited to continue her growth as a business owner. In this lesson, we'll analyze whether a business is making money by learning about the income statement.

The Income Statement

The **income statement**, once known as the profit-and-loss statement, shows a firm's revenues and expenses for a particular time period and the resulting profit or loss. The income statement itself has four principal parts: (1) sales revenue, (2) cost of goods sold, (3) operating expenses, all of which lead to the bottom line of (4) net income.

The Income Statement

Glitz n' Glamour

Income Statement FY 2019

Sales		871,000
Less: Sales Returns and Allowances		<u>(11,000)</u>
Net Sales		860,000
Less: Cost of Goods Sold		<u>(516,000)</u>
Gross Profit		344,000
Less: Operating Expenses		
Salaries and Wages	187,000	
Advertising	42,500	
Insurance	28,000	
Property Taxes	17,700	
Utilities	15,000	
Interest	14,500	
Depreciation/Amortization	8,400	
Supplies	<u>6,200</u>	
Total Operating Expenses		<u>(319,300)</u>
Income before Taxes		24,700
Less: Income Tax Expense		<u>(2,200)</u>
Net Income		<u>22,500</u>

Gross Profit: Net Sales and Our Cost of Goods

Organizations first must account for their overall revenue, and then they must take into account any returns and allowances, then they must account for what it costs to acquire, make, or provide merchandise. As a result, a company can determine their gross profits.

This portion of the income statement is comprised of the following:

- **Sales revenues** are the funds received from the sales of goods and services during a certain period. The figure of interest to us is arrived at by taking gross sales and subtracting sales returns and allowances, to arrive at net sales.
- **Gross sales** are the funds received from all sales of the firm's products.
- **Sales returns** are products that customers return to the company for a refund.
- **Allowances** are partial refunds to customers for damaged products they choose to keep, not return.
- **Net sales** refers to the money resulting after sales returns and allowances are subtracted from gross sales.
- **Cost of goods sold** is commonly referred to as COGS and represents the cost of producing a firm's merchandise for sale during a certain period. For a company like Naomi's, this may include purchasing garments from manufacturers and designers.

For Glitz n' Glamour, Naomi's company was able to generate \$871,000 in sales, she then deducts \$11,000 for returns and allowances, which left her with net sales

of \$860,000. Then the company must subtract out the cost of goods sold, which leaves the company with \$344,000. This amount refers to the **gross profit**, or gross margin, which is the amount remaining after the cost of goods sold is subtracted from the net sales.

Gross Profit on the Income Statement

Glitz n' Glamour

Income Statement FY 2019 Breakout

Sales	871,000
Less: Sales Returns and Allowances	<u>(11,000)</u>
Net Sales	860,000
Less: Cost of Goods Sold	<u>(516,000)</u>
Gross Profit	344,000

Operating Expenses: “What Were Our Selling and Administrative Expenses?”

Although a business may have a strong gross profit, the firm must still account for the expenses associated with the business. We refer to these as **operating expenses**, which are selling and administrative expenses incurred by the company.

- **Selling expenses** are all the expenses incurred in marketing the firm's products, such as salespeople's salaries, advertising, and supplies.
- **Administrative expenses** are costs incurred for the general operation of the business, such as salaries, supplies, depreciation, insurance, rent, and utilities.

For Glitz n' Glamour, the company has total operating expenses of \$319,300. Its selling expenses are related to salaries and wages as well as advertising. The company's administrative expenses may also include salaries and wages as the company may include wages for all employees in one line item. It also includes insurance, property taxes, interest, utilities, depreciation/amortization, and supplies.

Operating Expenses on the Income Statement

Glitz n' Glamour

Income Statement FY 2019 Breakout

Less: Operating Expenses	
Salaries and Wages	187,000
Advertising	42,500
Insurance	28,000
Property Taxes	17,700
Utilities	15,000
Interest	14,500
Depreciation/Amortization	8,400
Supplies	6,200
Total Operating Expenses	<u>(319,300)</u>

Now that we know the companies gross profit and operating expenses we can determine the companies profit before and after taxes.

Net Income—The Bottom Line: “What After-Tax Profit or Loss Did We End Up With?”

Net income, the firm’s profit or loss after paying income taxes, is determined by subtracting expenses from revenues. Net income is an important measure of company success or failure.

In the case of Glitz n’ Glamour, Naomi’s business made \$24,700, which is the amount the government uses to calculate what the business owes in taxes. Therefore, after Glitz n’ Glamour pays \$2,200 in taxes, the company made \$22,500. Because this is the last line of the income statement and tells whether or not a company made or lost money, it is often called the bottom line.

Net Income on the Income Statement

Glitz n’ Glamour

Income Statement FY 2019 Breakout

Income before Taxes
Less: Income Tax Expense
Net Income

24,700
(2,200)

22,500

Decisions



Chitra, I hate to take out my frustrations on you each time we meet, but I just don’t know what in the world is going on with my business! I am selling so much inventory, but I really don’t know why I am not making much money in the end.

That’s alright, Naomi, I have many clients who do all sorts of things in my office: they cry, yell, laugh hysterically, and even just stare at the wall. Sometimes numbers overwhelm people, but when you mention selling lots of product and not having as much money as you thought you’d have, we need to start by looking at the _____.

- A. balance sheet
- B. sales forecast
- C. income statement
- D. inventory turnover statement





Well I had \$871,000 in sales revenue, so where did it all go?

In order to get to the bottom line, we need to check out where your money is going. Your net income before taxes is calculated by _____.

- A. subtracting gross profit from sales revenue
- B. subtracting net income before taxes from gross profit
- C. adding expenses to net income before taxes
- D. subtracting expenses from gross profit



Yes, and I am sitting at \$24,700. This seems way too low. What is happening?

Your _____ is/are way too high.

- A. expenses
- B. net income after taxes
- C. sales revenue
- D. gross profit



I see it now, and I really wondered about this. I need to start cutting back, right?

Well, that is probably true. The two places you are spending money before taxes would be _____ and _____.

- A. expenses; net income before taxes
- B. cost of goods sold; expenses
- C. expenses; gross profit
- D. sales revenue; expenses



Yes, and I need to get those under control. See, I am feeling empowered already!

Correct Answers: C; D; A; B

Lesson 7-4

Financial Statements: The Cash Flow Statement

By the end of this lesson, you will be able to:

- Using provided data, construct an accurate, well-organized cash flow statement.

The Cash Flow Statement: How Money Came and Went

“Where Is the Cash Flowing?”

Naomi is gaining a better understanding of her financial statements, she is curious about what she can learn about a company’s operations by viewing a statement of cash flows. She follows up with Chitra for more information.



Okay, so one statement tells me the big picture of the business, another tells me how I am doing in relation to sales and expenses; I wish there was a way to dial in how money was coming and going from the business.



You’ve got to be kidding me!

We do have a financial statement that helps us do just that.



Hey, I wouldn’t joke when it comes to your cash! The statement is called the cash flow statement, and it tells us how money is coming into the business and where it is going. Let me show you!



Naomi can hardly contain her excitement! With this newfound knowledge, she is gaining confidence in her ability to better run Glitz n’ Glamour. In this lesson, you will learn how to find the cash coming in and out of a business.

The Cash Flow Statement

The **cash flow statement**, or statement of cash flows, reports over a period of time, first, the firm's cash receipts and, second, disbursement related to the firm's (1) operating, (2) investing, and (3) financing activities, which leads to the bottom line of (4) the cash balance.

Cash Flow Statement

Glitz n' Glamour

Cash Flow Statement FY 2019

Cash from Operating Activities		
Cash Received from Sales	868,000	
Cash Paid for Inventory	(507,000)	
Cash Paid for Operating Expenses	(312,500)	
Net Cash Provided by Operating Activities		48,500
Cash from Investing Activities		
Purchase of Equipment	(3,000)	
Purchase of Furniture and Fixtures	(9,000)	
Net Cash Used by Investing Activities		(12,000)
Cash from Financing Activities		
Payment of Notes Payable	(20,000)	
Payment of Mortgage Payable	(10,000)	
Net Cash Used by Financing Activities		(30,000)
Net Increase in Cash		6,500
Cash Balance FY-2018		9,000
Cash Balance FY-2019		15,500

Operating Activities: "What Were the Incomes and Costs of Running Our Business?"

Cash flows from operating activities reflect income from sales and other income and payments for salaries, interest, taxes, and so forth. These are the ordinary costs of running a business.

For Glitz n' Glamour we can see the cash coming from sales and going out via purchasing inventory and paying operating expenses.

Glitz n' Glamour

Statement of Cash Flows FY 2019 Breakout

Cash from Operating Activities

Cash Received from Sales	868,000
Cash Paid for Inventory	(507,000)
Cash Paid for Operating Expenses	(312,500)

Net Cash Provided by Operating Activities	48,500
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Investing Activities: “How Much Did We Earn from Our Investments?”

Cash flows from investing activities reflect the cash received from selling long-term assets, cash spent on buying equipment, and other investment activities.

Glitz n' Glamour did not earn any money from investing. Although they did make some investments in equipment, furniture, and fixtures.

Glitz n' Glamour

Statement of Cash Flows FY 2019 Breakout

Cash from Investing Activities

Purchase of Equipment	(3,000)
Purchase of Furniture and Fixtures	(9,000)

Net Cash Used by Investing Activities	(12,000)
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Financing Activities: “How Well Did We Do from Our Loans to Others, Payment of Debt, and Our Stock Transactions?”

Cash flows from financing activities reflect the inflows and outflows of borrowed funds and long-term debt, sales of new stock, and payment of dividends.

Glitz n' Glamour is continuing to pay their loan via the notes payable and the building they own through the mortgage.

Glitz n' Glamour

Statement of Cash Flows FY 2019 Breakout

Cash from Financing Activities

Payment of Notes Payable	(20,000)
Payment of Mortgage Payable	(10,000)

Net Cash Used by Financing Activities	(30,000)
--	-----------------

Cash Balance: “How Much Money Is Available at the End of the Year?”

Cash balance is the balance in the firm’s cash account at the end of the year. Analyzing and understanding cash flow is vital to the success of any firm because many failed businesses blame their financial distress on inadequate cash flow.

Over the year Naomi’s business has seen a cash increase of \$6,500, and for the latest fiscal year, Glitz n’ Glamour has a cash balance of \$15,500.

Glitz n’ Glamour

Statement of Cash Flows FY 2019 Breakout

Net Increase in Cash	6,500
Cash Balance FY-2018	<u>9,000</u>
Cash Balance FY-2019	<u>15,500</u>

Decisions



Chitra, is there a statement that would explain how much money I actually have right now?

Yes, it’s the statement of cash flows, and it consists of _____.

- A. operating cash, financing activities, expenses, and your cash balance
- B. financing activities, sales revenues, expenses, net income after taxes, and your bottom line
- C. sales revenues, expenses, and your cash balance
- D. operating cash, investing cash, financing activity, and your cash balance.





Great, because I need to know how much money I can spend this month, and with all this money up in the air, I am hoping my checks don't bounce at the bank! Haha!

Yes, we can see these numbers because we can create a cash flow statement _____.

- A.** from the net income after tax numbers from the income statement
- B.** for any time period that we want
- C.** only monthly
- D.** only annually



If I'm looking at this correctly, I have more money in the end this year than I did last year, and this is called a _____.

- A.** profit
- B.** bottom line
- C.** net increase in cash
- D.** net income in cash

That's right, so keep it up, and next year might even be better!



Correct Answers: D; B; C

Lesson 7-5

Financial Ratios

By the end of this lesson, you will be able to:

- Interpret financial ratios in relation to organizational performance.

Using Financial Data to Analyze the Business

“What Do We Do with the Data?”

Naomi, elated with financial statements in hand, started to ponder how her business compares to others in her industry. She also wondered if there were any goals, standards, or benchmarks she should be comparing her business against. These thoughts had her hungry to learn more about accounting.



Having these financial statements is really helpful in understanding the business. I guess I wish there was a way to determine how well we are doing.

Naomi, we absolutely have a way to accomplish this goal.



Well, I know we have the accounting equation, profit and loss, and cash balance, but I'd like to start to analyze what we can do to make the business perform better.

I can help you with that. Now that we have the financial statements, we can conduct financial analysis using different ratios. These numbers can tell you how the business is doing and give you a chance to set some goals.



Naomi is ready to gain a deeper understanding of these numbers and how they can help her set new goals for the future of the business.

In this lesson, we will work together to teach Naomi how she can utilize the data from her financial statements to analyze her business's performance by using ratio

analysis. Once Naomi can benchmark her firm's performance and become more aware of how her company operates, she will be more informed and empowered to make business decisions for the future.

Introduction to Accounting Ratios

Accountants don't just prepare financial statements. They also analyze the financial data to provide the firm's managers and investors with a better understanding of financial performance. One way of doing so is through ratio analysis. (Two other ways are horizontal analysis and vertical analysis, which can be used to compare financial statement numbers and ratios over a number of years. Expect to learn more about these analysis types in later studies.)

Ratio analysis uses one of a number of financial ratios—such as liquidity, efficiency, leverage, and profitability—to evaluate variables in a financial statement. Ratio analysis can be used to analyze a firm's performance (1) compared to its stated objectives and (2) compared to the performance of similar firms.

Ratio analysis evaluates the variables within a financial statement. Four types of financial ratios are:

1. **Liquidity ratios**, which determine how well a firm can pay its liabilities as they come due
2. **Activity ratios**, which determine how well the firm manages its assets to generate revenue
3. **Debt to owners' equity ratios**, which determine how much the firm relies on borrowing to finance its operations
4. **Profitability ratios**, which determine how high the firm's profits are in relation to its sales, assets, or owners' equity

Understanding Liquidity Ratios

We discuss four types of financial ratios in this lesson starting with the liquidity ratios.

Liquidity Ratios: Current Ratio and Acid-Test Ratio

Liquidity ratios measure a firm's ability to meet its short-term obligations when they become due. They are of interest to anyone who wants to know whether a firm is able to pay its short-term debts on time.

Two important liquidity ratios are:

- The **current ratio** consists of current assets divided by current liabilities. A goal for most businesses is to have 2.0 or higher ratio. The reason this is the benchmark is because the company has a two to one ratio of assets to liabilities, meaning it could more than likely pay back its current debts.

- The **acid-test ratio**, or quick ratio, consists of cash + marketable securities + receivables, all divided by current liabilities. The standard for this ratio is 1.0 or higher. This benchmark looks at a company's most liquid assets compared to its current debt. Therefore, a company which has a ratio of \$1.00 of assets to \$1.00 of liabilities has a strong likelihood of being able to service their current debts.

Current Ratio Equation Applied at Glitz n' Glamour

For Glitz n' Glamour, the balance sheet for fiscal year 2018 indicates that current assets are \$145,400 and current liabilities are \$85,000. When the assets are divided by the liabilities it produces a ratio of 1.71. This means the company has \$1.71 in assets for every \$1.00 in liabilities. Although this indicates there are enough current assets to manage the current liabilities, most banks and investors feel more secure lending and investing in a company that has a current ratio of 2.0 (\$2.00 of assets for every \$1.00 of liabilities) or higher.

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}} = \frac{\$145,400}{\$85,000} = 1.71$$

Acid-Test Ratio Equation Applied at Glitz n' Glamour

Glitz n' Glamour's balance sheet for fiscal year 2018 shows \$15,500 in cash, \$0.00 in marketable securities, and \$45,000 in accounts receivables, totaling \$60,500. The current liabilities are \$85,000.

$$\text{acid-test ratio} = \frac{\text{cash} + \text{marketable securities} + \text{receivables}}{\text{current liabilities}} = \frac{\$15,500 + \$0.00 + \$45,000}{\$85,000}$$

With a ratio of 0.71, Glitz n' Glamour is below the conventional acid-test ratio of 1.0. Because the result is less than 1.0, Naomi might have to boost her cash by borrowing from a high-cost lender, obtaining additional cash from investors, reducing dividend payments to stockholders, or trying to sell inventory.

Decisions



Hi, Chitra!

Naomi! How is Glitz n' Glamour going lately?





It's picking up this season, and I even thought about trying to buy a new inventory tagging system so I can keep track of my inventory in real-time. Problem is, I decided to try and take out a short-term loan of \$7,500 from the bank to buy the tagging system, and the loan officer kept asking for my financial ratios. I didn't know what to tell him.

Yes, financial ratios. That's music to my ears! Well, almost!



I found it to be more like nails on a chalkboard.

Haha! All the information you need to get these financial ratios is already at your fingertips in your financial statements. I bet the loan officer wanted your current ratio, right? It compares _____.

- A. total assets with total liabilities
- B. current assets with total liabilities
- C. current liabilities with acid assets
- D. current assets with current liabilities



Yes, he did, and I asked why, and he said it would give him _____.

- A. a better idea if Glitz n' Glamour could turn its inventory into cash quickly
- B. a better idea if Glitz n' Glamour could have cash left over after the loan is made
- C. a better idea if Glitz n' Glamour could service its current debts
- D. a better idea if Glitz n' Glamour could pay back its current debts

Indeed, that is true. Did he also ask about the _____ ratio? It indicates if the company is able to service its immediate debts, thereby giving the bank an indication of how likely you would be in making your loan payments each month.

- A. ending cash
- B. debt
- C. acid-test
- D. current



Yes, he did, but I looked a bit like a deer in the headlights by then, so I gracefully bowed out of his office until I could meet with you. I guess I didn't realize these ratios were just figures derived from information I already had. Well, I guess I'm learning day by day.

Correct Answers: D, D, C

Understanding Activity Ratios

Activity or efficiency ratios are used to evaluate how well management uses a firm's assets to generate revenue. That is, they express how well a company can turn its assets (such as inventory) into cash to pay its short-term debts.

One of the primary ratios a company uses in determining its efficiency is the inventory turnover ratio, which measures the number of times a company sells its inventory in a year's time. The more frequently a firm can sell its inventory, the greater its revenue.

Inventory Turnover Ratio

The **inventory turnover ratio** consists of cost of goods sold in one year divided by the average value of the inventory.

Inventory turnover ratios vary by industry and by company, with Nike, for example, turning over its inventory about 4.5 times a year and Starbucks 14.7 times a year. A high ratio may indicate efficiency. A low ratio may indicate too much obsolete inventory or a need to sharpen the buying strategy. What is considered a "good" number of turns varies between industries.

Inventory Turnover Ratio Applied at Glitz n' Glamour

Glitz n' Glamour's income statement shows costs of goods sold was \$516,000. Although for simplicity's sake we did not show the average inventory on that statement, it is determined by adding the inventory value at the end of fiscal year 2018 to the inventory value at the end of the previous year (fiscal year 2017) and dividing by 2, which is \$78,000.

$$\text{inventory turnover ratio} = \frac{\text{cost of goods sold}}{\text{average inventory}} = \frac{\$516,500}{\$78,000} = 6.62$$

Glitz n' Glamour's inventory turnover ratio is somewhat low. It may have too much obsolete inventory or a buying strategy that needs to be sharpened.

Decisions



Hey Naomi! I just was in the neighborhood, and I thought I'd pop in to say hello!

Luke! So glad you stopped in! Check out these we just got in!



Sweet! These shirts are wicked cool!

Yes, they are fab! I sure hope they sell better than the ones over in that corner of the shop. Those even have a bit of dust on them! Dust, man! Hard to believe I'm actually dusting my inventory!



No kidding! That's not a good sign. Your _____ must be pretty low.

- A. sales to no-sales ratio
- B. asset sales ratio
- C. sales margins
- D. inventory turnover

You know about that? Wow, why have I been spending all this money on my accountant! Ha!



No, not really, but I guess I got lucky with my wording! Seriously, I do recall learning about it, but how does it work again?

It _____ in order to find out how frequently I'm selling off my current inventory of products.

- A.** analyzes the inventory turnover divided by the industry average turnover
- B.** analyzes the cost of goods sold in one year divided by the average value of the inventory
- C.** analyzes the cost of goods sold in one year divided by sales revenue



Interesting. So, how do you know if you are on track then?

Most companies compare their figures to _____.

- A.** the best company in their industry
- B.** the firm's figures for the previous year
- C.** industry averages
- D.** the worst company in their industry



So how is yours then?

It's a bit low, and as you can tell from the dust, I need to get crackin' on selling those clothes!



Correct Answers: D; B; C

Understanding Debt to Owners' Equity Ratios

The **debt to owners' equity ratio** is a measure of the extent to which a company uses debt, such as bank loans, to finance its operations. It is found by dividing total liabilities by owners' equity. If a firm takes on too much debt, it may have problems repaying borrowed funds or paying dividends to stockholders.

Debt to Owners' Equity Ratio Applied at Glitz n' Glamour

Glitz n' Glamour's balance sheet shows that total liabilities were \$455,000 and total owners' equity was \$64,000.

$$\text{debt to owners' equity ratio} = \frac{\text{total liabilities}}{\text{owners' equity}} = \frac{\$455,000}{\$64,000} = 711\%$$

With a ratio of 711%, this means that Glitz n' Glamour has borrowed \$711 for every \$100 the owners have provided. Clearly, Glitz n' Glamour has a high debt to equity ratio. However, it is important to compare their debt ratio to other firms in their industry. With a debt ratio over 100%, it may be more difficult for the company to borrow money from lenders. For some lenders and investors, a 100% ratio is acceptable; however, more conservative investors and lenders like to see this ratio around 70% or lower. Glitz n' Glamour far exceeds the preferred ratio, and the owner should look further into company's debt.

Decisions



Hi Naomi! I got your message this morning on my voicemail, and I was close by so I decided to just drop by and chat.

Thanks for coming by, Chitra! I had some questions about my debt ratio. The loan officer at the bank needs this ratio before considering my loan request, but I didn't know what to tell him. Where do I find this?





Sure, no problem. The debt to equity ratio is calculated by _____.

- A.** dividing current liabilities to owners' equity
- B.** multiplying owners' equity by total liabilities
- C.** dividing total liabilities by owners' equity
- D.** dividing total equity by total liabilities

Okay, but what is that really showing me?



Good question. The debt to equity ratio is most commonly used to _____.

- A.** show what extent a business uses debt to finance its operations
- B.** show how much debt the business has on its balance sheet
- C.** show how much the business is worth through its equity
- D.** show how much profit a business has earned

That makes sense now. The calculation is pretty straight forward, and I think Glitz n' Glamour needs to re-think taking on any new debt until we can get that ratio down.



True. Taking on debt is always a big decision, so think hard about it, but you also need to think hard if you can live without that real-time inventory tagging system. That system really might free up some of your time to devote to other things.

Yeah, like trying to pick some better shirts that will sell fast!



Correct Answers: C; A

Understanding Profitability Ratios

Profitability ratios are used to measure how well profits are doing in relation to the firm's sales, assets, or owners' equity. Three important profitability ratios are return on sales (profit margin), return on assets, and return on owners' equity.

Glitz n' Glamour may know what its net income is after taxes—\$22,500, according to the income statement. However, to determine how well the firm is using its resources, Naomi will want to put this result into each of the three ratios to get a better understanding of her companies performance.

Return on Sales

The **return on sales**, or profit margin, is net income divided by sales. This information helps the company understand how much profit is being generated by every dollar of sales.

For Glitz n' Glamour this means taking the \$22,500 net income from the income statement and dividing by the net sales of \$860,000 from the income statement.

$$\text{return on sales} = \frac{\text{net income}}{\text{net sales}} = \frac{\$22,500}{\$860,000} = 2.61\%$$

This means for every \$100 in sales, the firm had a profit of \$2.61. Between 4% and 5% is considered a reasonable return; so in its return on sales, Glitz n' Glamour needs to identify some ways to increase this percentage.

Return on Assets

Return on assets is net income divided by total assets. This information helps the company understand how well they are using their assets to generate profits.

For Glitz n' glamour this equates to \$22,500 in net income from the income statement, and \$519,000 by adding up the company's assets for fiscal year 2018 from the balance sheet.

$$\text{return on assets} = \frac{\text{net income}}{\text{total assets}} = \frac{\$22,500}{\$519,000} = 4.33\%$$

A return of \$4.33 on every \$100 invested in assets is quite a low return, which suggests Glitz n' Glamour has an opportunity to improve how they utilize their assets to generate profits for the company.

Return on Owners' Equity

Return on owners' equity, also called return on investment (ROI), is net income divided by owners' equity. This information helps a company understand how much profit the company is returning to shareholders based on their invested capital.

Glitz n' Glamour generates \$35.15 of profit for every \$100 invested in the business.

$$\text{return on owners' equity} = \frac{\text{net income}}{\text{owners' equity}} = \frac{\$22,500}{\$64,000} = 35.15\%$$

Because the average for business in general is 12% to 15%, Glitz n' Glamour is delivering a good return to its owners (investors or stockholders).

Decisions



Hi, Chitra! Thanks for seeing me on such short notice.

No problem at all, Naomi. What did you want to talk about?



It seems like it's coming back to the same problem I faced before. I seem to be selling lots of merchandise, but I just don't seem to be making as much money in the end as I thought.

This sounds like you are talking about _____, this is also known as gross margin.

- A. return on sales
- B. return on assets
- C. retrun on profit
- D. return on equity



I guess? What does this really mean though?

If you divide your net income, which you think is too low, by your net sales, which you think is actually quite high, then you will arrive your return on sales. This tells you _____.

- A.** how much money you are making overall
- B.** how much profit is being generated by each dollar of sales
- C.** how many sales you are achieving for each dollar of profit you earn
- D.** how much profit is being generated by each dollar of assets you own



Okay, but why is this number important? Don't I already know how much money I'm making?

Because it starts to show you if you are actually profiting from all of your sales. If not, then you know that either _____ or _____.

- A.** your expenses are too low; prices are not high enough
- B.** your expenses are too high; prices are too high
- C.** your expenses are too low; prices are too high
- D.** your expenses are too high; prices are not high enough



Really? You know that might really help me narrow down on what I should actually do about this problem!

Yes! See, this is fairly straight forward, and these financial ratios can help paint a picture of the health of your business.



Indeed! Let's get painting, haha!

Correct Answers: A, B, D

Accounting and Financial Statements: Test

1. Delores is a financial accountant. One of her roles is to
 - A. prepare accounting information and analyses for managers and decision makers.
 - B. prepare and monitor department and company-wide budgets.
 - C. analyze the costs of production and marketing.
 - D. manage and control inventory and production costs.
 - ☒ E. perform audits to ensure accuracy of the financial information.
2. Lester, Lester & Lester, a law firm, has an accountant on staff to manage its financial information. This accountant is a(n) _____ accountant.
 - ☒ A. private
 - B. public
 - C. organization
 - D. not-for-profit
 - E. community
3. Dr. Badger's Pet Store is applying for a loan from the bank. The company has liabilities of \$670,000 and owners' equity of \$250,000. What is the debt to owners' equity ratio for Dr. Badger's Pet Store?
 - A. 4.20 percent
 - B. 3.11 percent
 - ☒ C. 2.68 percent
 - D. 0.37 percent
 - E. 1.10 percent
4. Pedro's job is to keep track of all of the company's financial transactions and record them. Pedro is
 - ☒ A. a bookkeeper.
 - B. a financial manager.
 - C. a department head.
 - D. an investor.
 - E. a board member.
5. On the balance sheet, insurance would be listed a(n)
 - A. marketable security.
 - B. fixed liability.
 - C. one-time expense.
 - ☒ D. prepaid expense.
 - E. fixed expense.
6. Nakia has a small accounting company with three employees. She buys each person a new computer every three years. The reduction in value of Nakia's older computers would be listed on a balance sheet as
 - A. asset decay.
 - ☒ B. accumulated depreciation.
 - C. asset decline.
 - D. inventory deterioration.
 - E. equipment downgrade.
7. Akito has not yet paid the rent on his office for the month. How would this debt be labeled on a balance sheet?
 - A. notes payable
 - B. fixed liability
 - ☒ C. accounts payable
 - D. long-term liability
 - E. common liability

8. A mechanic took out a mortgage from a bank to buy the garage he and his employees work out of. How would this be listed on a balance sheet?
- A. notes payable
 - B. fixed liability
 - C. accounts payable
 - D. long-term liability**
 - E. common liability
9. Yelena just completed her income statement. She included her company's sales revenue, operating expenses, and net income. Which principal part of an income statement did Yelena forget to include?
- A. profit
 - B. cost of goods sold**
 - C. taxes
 - D. liabilities
 - E. payroll expenses
10. In a cash flow statement, cash flows from investing activities would include
- A. cash received from sales.
 - B. payment of notes payable.
 - C. payment of mortgage payable.
 - D. purchase of equipment.**
 - E. cash paid for inventory.
11. Ratio analysis can be used to analyze a firm's performance compared to
- A. its previous year's performance.
 - B. its objectives.**
 - C. the industry as a whole.
 - D. its liquidity.
 - E. its profitability.
12. A low inventory turnover ratio may indicate
- A. higher revenue.
 - B. having to replenish inventory often.
 - C. low customer satisfaction.
 - D. having too much obsolete inventory.**
 - E. efficiency in selling inventory.
13. Tree Down Landscaping recently took out a mortgage for its new vehicle storage facility. When it prepares its balance sheet, the mortgage will be classified as
- A. a fixed asset.
 - B. owner's equity.
 - C. a short-term liability.
 - D. an intangible asset.
 - E. a long-term liability.**
14. A(n) _____ is a specialized record book or computer program that contains summaries of all journal transactions that are accumulated into specific categories.
- A. bulletin**
 - B. ledger
 - C. balance sheet
 - D. journal
 - E. transaction log
15. Second Harvest Tractors sold 10,000 shares of new stock last year. How would this be classified on a cash flow statement?
- A. financing activities**
 - B. shareholder activities
 - C. operating activities
 - D. investing activities
 - E. fixed activities

16. Tamarack Camping Company has a common stock balance of \$50,000 and retained earnings of \$20,000. It has notes payable of \$100,000, current notes payable of \$25,000, mortgage payable of \$200,000, and accounts payable of \$50,000. Using this information, calculate its debt to owners' equity ratio.
- ☒ A. 53.57%
 - B. 10.71%
 - C. 42.86%
 - D. 60%
 - E. 75%
17. Alabaster Enterprises has net income of \$35,000, total assets of \$300,000, common stock of \$50,000, and retained earnings of \$25,000. Calculate its return on investment.
- A. 50.00%
 - B. 57.50%
 - ☒ C. 46.00%
 - D. 62.50%
 - E. 50.00%
18. Paresh called his investors to let them know that the funds received from all sales of the firm's products reached \$1 million, not counting returns or allowances. Paresh was referring to his D.
- A. cost of goods sold.
 - B. gross profit.
 - C. current assets.
 - ☒ D. gross sales.
 - E. net sales.
19. Zenon is an accountant for the United Way, a charitable organization. Zenon is a(n) _____ accountant.
- A. private
 - B. public
 - C. organization
 - ☒ D. not-for-profit
 - E. community
20. According to the Generally Accepted Accounting Principles (GAAP), financial statements must be relevant, consistent, reliable, and
- A. timely.
 - B. subjective.
 - ☒ C. comparable.
 - D. understandable.
 - E. flexible

Glossary

A

360-degree assessment

Employees are appraised not only by their managers but also by their coworkers, subordinates, and sometimes customers or clients

absolute advantage Exists when one country has a monopoly on producing a product more cheaply or efficiently than any other country can

accelerator Accelerators are programs that help entrepreneurs bring their products into the marketplace through providing support and resources designed to help the business launch and scale operations.

accessory equipment

Smaller, more mobile equipment

accountability Managers must report and justify their work results to managers above them

accounting The process of measuring, classifying, analyzing, and communicating financial information

accounting equation Assets = liabilities + owners' equity

accounting process the process of collecting, recording classifying, summarizing, reporting, and analyzing financial data

accounting process Six activities that result in converting information about

individual transactions into financial statements that can then be analyzed

accounts payable Money owed to others that the firm has not yet paid

accounts receivable The total amount owed to a firm from customers who have purchased goods or services on credit

accumulated depreciation The reduction in value of assets to reflect their wearing down or obsolescence over time

acid-test ratio $(\text{Cash} + \text{marketable securities} + \text{receivables}) \div \text{current liabilities}$ (also known as *quick ratio*)

acquisition Occurs when one company buys another one

Active Corps of Executives (ACE) A Small Business Association mentoring program composed of executives who are still active in the business world but have volunteered their time and talents

activity ratios Used to evaluate how well management uses a firm's assets to generate revenue (also known as *efficiency ratios*)

actual close the salesperson concludes the presentation by asking the prospect to purchase the product

actual close The salesperson concludes the presentation

by asking the prospect to purchase the product

administrative expenses

Costs incurred for the general operation of the business

advertising Paid nonpersonal communication by an identified sponsor (person or organization) using various media to inform an audience about a product

advertising media The variety of communication devices for carrying a seller's message to prospective buyers

advocacy advertising

Concerned with supporting a particular opinion about an issue

affirmative action Aims to achieve equality of opportunity within an organization

agency shop Workplace in which workers must pay the equivalent of union dues, although they are not required to join the union

agents Specialists who bring buyers and sellers together and help negotiate a transaction (also known as *brokers*)

agents Tend to maintain long-term relationships with the people they represent

allowances Partial refunds to customers for damaged products they choose to keep, not return

analytic transformation The process in which resources are broken down to create finished products

angel investor Individuals who invest their own money in a private company, typically a start-up

annual report A year-end report that shows a firm's financial condition and outlook for the future

antitrust law A set of laws designed to keep markets competitive by deterring big businesses from driving out small competitors

Appellate courts Appellate courts: courts that review cases appealed from lower courts, considering questions of law but not questions of fact

application (DEI) The action of putting DEI into operation

appreciation (DEI) Recognition and enjoyment of the good qualities of DEI

apprenticeship Training program in which a new employee works with an experienced employee to master a particular craft

arbitration The process in which a neutral third party listens to both parties and makes a decision that the parties have agreed will be binding on them

arbitration The process in which a neutral third party, an arbitrator, listens to both parties in a dispute and makes a decision that the parties have agreed will be binding on them

Asia-Pacific Economic Cooperation (APEC) Common market of 21 Pacific Rim countries whose purpose

is to improve economic and political ties

ask Highest selling price asked

assembly line Consists of a series of steps for assembling a product, each step using the same interchangeable parts and each being performed repetitively by the same worker

assets Anything of value that is owned by a firm

at-will employment The employer is free to dismiss any employee for any reason at all—or no reason—and the employee is equally free to quit work (also known as *employment at will*)

auction site a digital retail site that lists from individuals or firms that can be purchased through an auction bidding process or directly through a “purchase now” feature.

authority The legitimacy an organization confers on managers in their power to make decisions, give orders, and utilize resources

autocratic leaders Make decisions without consulting others

automation Using machines as much as possible rather than human labor to perform production tasks

B

B corporation Legally requires that the company adhere to socially beneficial practices, such as helping communities, employees, consumers, and the environment (also known as benefit corporation)

balance of trade The value of a country's exports compared to the value of its imports over a particular period of time

balance sheet Statement of a firm's financial condition at a given time showing its assets, liabilities, and owners' equity

bankruptcy The legal means of relief for debtors unable to pay their debts

bargain hunting digital purchasing behavior that involves coupon or auction sites. Bargain hunting is often combined with browsing and may or may not lead to a purchase.

barter To trade goods or services without the exchange of money

barter The trading of goods and/or services for other goods and/or services

base pay Consists of the basic wage or salary workers are paid for doing their jobs

benchmarking A process by which a company compares its performance with that of high-performing organizations

benefit segmentation Consists of categorizing people according to the benefits, or attributes, that people seek in a product

benefits Nonwage or nonsalary forms of compensation paid for by the organization for its employees

bid Highest price a buyer (bidder) is willing to pay

bill of materials Essentially a list of materials that go into the finished product

blue-chip stocks Preferred or common stocks of big, reputable companies, which

also usually pay regular dividends

bond rating measures the quality and safety of a bond, indicating the likelihood that the debt issuer will be able to meet scheduled repayments, which dictates the interest rate paid.

bonds Contracts between issuer and buyer in which the purchase price represents a loan by the buyer and for which the issuing firm pays the buyer interest

bonds Long-term IOUs issued by governments and corporations, contracts on which the issuer pays the buyer interest at regular intervals

Bonds contracts between issuer and buyer in which the purchase price represents a loan by the buyer and for which the issuing firm pays the buyer interest

Bonds long-term IOUs issued by governments and corporations, contracts on which the issuer pays the buyer interest at regular intervals.

bonds payable Long-term liabilities that represent money lent to the firm that must be paid off

bonuses Cash awards given to employees who achieve particular performance objectives

Bonuses are cash awards given to employees who achieve particular performance objectives.

book value a company subtracts its liabilities from its assets, and the resulting figure, the shareholders'

equity, is then divided by the number of shares available of the stock.

book value A company subtracts its liabilities from its assets, and the resulting figure, the shareholders' equity, is then divided by the number of shares available of the stock

bookkeeping Recording a company's financial transactions

bootstrapping a process of funding a business by using personal funds rather than seeking debt or equity investment.

bots a software application that runs automated tasks over the Internet.

bounce rate the percentage of visitors who enter a website and then quickly depart, or bounce, rather than continuing to view other pages within the same site.

brain drain The emigration of highly skilled labor to other countries in order to better their economic condition

Brain drain the emigration of highly skilled labor to other countries in order to better their economic condition

brainstorming A process wherein individuals or members of a group generate multiple ideas and alternatives

brand A unique name, symbol, or design that identifies an organization and its product or service

brand advertising Consists of presentations that promote specific brands to ultimate consumers (also known as *product advertising*)

brand awareness Consumers recognize the product

brand equity The marketing and financial value derived from the combination of factors that people associate with a certain brand name

brand insistence Consumers insist on the product; they will accept no substitutes

brand loyalty Commitment to a particular brand—the degree to which consumers are satisfied with a product and will buy it again

brand manager Person responsible for the key elements of the marketing mix—product, price, place, and promotion—for one brand or one product line (also known as *product manager*)

brand marks The parts of a brand that cannot be expressed verbally, such as graphics and symbols

brand names The parts of a brand that can be expressed verbally, such as by words, letters, or numbers

brand preference Consumers habitually buy the product if it is easily available, but will try alternatives if they can't find it

break-even analysis A way to identify how much revenue is needed to cover the total costs of developing and selling a product

break-even point The point at which sales revenues equal costs; that is, the point at which there is no profit but also no loss

brokerage firms Companies that buy and sell stocks and bonds for individuals and offer high-interest-rate combination checking and savings accounts

Brokerage firms companies that buy and sell stocks and bonds for individuals and offer high-interest-rate combination checking and savings accounts.

brokers Usually hired on a temporary basis; relationship with the buyer or the seller ends once the transaction is completed

browsing digital purchasing behavior wherein the consumer is not really looking to make a purchase.

budget A detailed financial plan showing estimated revenues and expenses for a particular future period, usually one year

bundling The practice of pricing two or more products together as a unit

business Any activity that seeks to make a profit by satisfying needs through selling goods or services and generating revenue; a for-profit organization

business cycle The periodic but irregular pattern of ups and downs in total economic production

business environment The arena of forces (economic, technological, competitive, global, and social) that encourage or discourage the development of business

business market Consists of those business individuals and organizations that want business goods and services that will help them produce or supply their own business goods and services (also known as *business-to-business market*)

business model The needs the firm will meet, the operations of the business, the company's components and functions, and its expected revenues and expenses

business plan A document that outlines a proposed firm's goals, the methods for achieving them, and the standards for measuring success

business services Services used in operations

business-to-business market Consists of those business individuals and organizations that want business goods and services that will help them produce or supply their own business goods and services (also known as *business market*)

business-to-consumer (B2C) refers to selling products and services directly to the consumer of the products or services

buying club site a digital retail site that allows consumers to buy in bulk

buzz marketing Using high-profile entertainment, social media, or news to get people to talk about their product

C

C corporation A state-chartered entity that pays taxes and is legally distinct from its owner

callable bonds Bonds in which the issuer may call them in and pay them off at a predetermined price before the maturity date

Callable bonds bonds in which the issuer may call them in and pay them off at a

predetermined price before the maturity date.

canned presentation uses a fixed, memorized selling approach to present the product

canned presentation Uses a fixed, memorized selling approach to present the product

capital budgets Used to predict purchases of long-term assets

capital expenditures Major investments in tangible or intangible assets

capital gain The return made by selling a security for a price that is higher than the price the investor paid for it

capital items Large, long-lasting equipment

capitalism An economic system in which the production and distribution of goods and services are controlled by private individuals rather than by the government (also known as *free-market economy*)

Carroll's Global Corporate Social Responsibility Pyramid Archie Carroll's guide for thinking about the day-to-day practical and moral matters that businesses encounter; the pyramid suggests that an organization's obligations in the global economy are to be a good global corporate citizen, to be ethical, to obey the law, and to be profitable

cash balance Balance in the firm's cash account at the end of the year

cash budgets Used to predict cash shortages or surpluses during the year

Cash Budgets: used to predict cash shortages or surpluses during the year.

cash flow forecasts

A prediction about how money will come into and go out of a firm in the near future

cash flow statement Reports over a period of time, first, the firm's cash receipts and, second, disbursement related to the firm's (1) operating, (2) investing, and (3) financing activities, which leads to the bottom line of (4) the cash balance

cash-and-carry wholesaler

A limited-function wholesaler that sells mainly to small retailers, who come to the wholesaler, pay cash for a product, and carry it out ("cash and carry")

Cash-and-carry wholesaler

A limited-function wholesaler that sells mainly to small retailers, who come to the wholesaler, pay cash for a product, and carry it out ("cash and carry").

catalog marketing Consists of mailing customers catalogs, from which they may choose merchandise to be ordered via mail, telephone, or online (also known as *mail-order marketing*)

cause marketing

A commercial activity in which a business forms a partnership with a charity or nonprofit to support a worthy cause, product, or service.

cause-related marketing

A commercial activity in which a business forms a partnership with a charity or nonprofit to support a worthy cause, product, or

service; also known as *cause marketing*

central-planning economies

Economic systems in which the government owns most businesses and regulates the amounts, types, and prices of goods and services (also known as *command economies*)

centralized authority

Important decisions are made by higher-level managers

certificate of deposit Pays interest upon the certificate's maturity date

chatter Another form of consumer feedback that occurs when a consumer shares, forwards, or "retweets" a marketing message. For marketers, the level of chatter represents consumer feedback.

checking account Allows you to deposit money in a bank account and then write checks on that account

checking account allows you to deposit money in a bank account and then write checks on that account

click path a sequence of hyperlink clicks that a website visitor follows on a given site, recorded and reviewed in the order the consumer viewed each page after clicking on the hyperlink.

closed shop An employer may hire only workers for a job who are already in a union

co-branding Two noncompeting products link their brand names together for a single product

code of ethics A written set of ethical standards to

help guide an organization's actions

Cognitive diversity Cognitive diversity utilizes the different experiences and perspectives of individuals to address particular situation, challenge, opportunity, or problem.

cold-call sales prospecting technique Consists of calling on prospects with whom you have had no previous contact and to whom you do not have any kind of introduction

collateral Asset that is pledged to secure the loan

collective bargaining Consists of negotiations between management and employees in disputes over compensation, benefits, working conditions, and job security

collective bargaining The process by which labor and management representatives meet to negotiate pay, benefits, and other work terms

command economy

Economic system in which the government owns most businesses and regulates the amounts, types, and prices of goods and services (also known as *central-planning economy*)

commercial bank A federal- or state-chartered profit-seeking financial institution that accepts deposits from individuals and businesses and uses part of them to make personal, residential, and business loans

commercial finance

companies Organizations willing to make short-term

loans to borrowers who can offer collateral

commercial paper

Unsecured, short-term promissory notes over \$100,000 issued by large banks and corporations

commercialization The full-scale production and marketing of the product

commodities trading Trading in raw materials and agricultural products used to produce other goods

commodity exchange

A security exchange in which futures contracts are bought and sold

common market Group of nations within a geographical region that have agreed to remove trade barriers with one another (also known as *economic community* or *trading bloc*)

common stock Stockholders are able to vote on major company decisions, but they get (1) last claim on the company's dividends and (2) last claim on any remaining assets if the company goes out of business and its assets are sold

communism An economic system in which the government owns all property and everyone works for the government

Community Development Financial Institution (CDFI)

A Community Development Financial Institution (CDFI) is a private financial institution who provide investing as well as personal and business lending opportunities to underserved communities within the United States.

comparative advantage

Economic principle stating that a country sells to other countries those products and services it produces most cheaply or efficiently; the country buys from other countries those goods or services that it does not produce most cheaply or efficiently

compensation and benefits

Laws and administration around worker's hours, pay, and benefits

competitive advantage An organization's ability to produce goods or services more effectively than its competitors

competitive advertising

Promotes a product by comparing it more favorably to rival products (also known as *comparative advertising*)

competitive pricing The strategy in which price is determined in relation to rivals, factoring in other considerations such as market dominance, number of competitors, and customer loyalty

competitor People or organizations that are rivals for a company's customers or resources

compliance-based ethics code

Ethical code that attempts to prevent criminal misconduct by increasing control and by punishing violators

component parts Finished or nearly finished products for making principal product

compressed workweek An employee works a full-time job in less than five days of standard 8- or 9-hour shifts

computer-aided design (CAD)

Programs that are used to design products, structures, civil engineering drawings, and maps

computer-aided manufacturing (CAM)

The use of computers in the manufacturing process

computer-integrated manufacturing (CIM)

Systems in which computer-aided design is united with computer-aided manufacturing

concept testing Marketing research designed to solicit initial consumer reaction to new product ideas

conceptual skills The ability to think analytically, to visualize an organization as a whole, and understand how the parts work together

consideration Promising to do a desired act or refrain from doing an act you are legally entitled to do in return for something of value, such as money

consumer buying process

The five steps by which consumers make decisions when considering whether to buy a product

consumer feedback different ways that customers can report their satisfaction or dissatisfaction with a firm's products.

consumer market Consists of all those individuals or households that want goods or services for their personal use

consumer price index (CPI)

An index that encapsulates the monthly costs of a “market basket” of about 400 representative consumer goods and services that allow data analysts to measure the rate of inflation or deflation

consumer review a direct assessment of a product (good, service, or idea) that is expressed through social media for others to see and consider.

consumer sovereignty The idea that consumers influence the marketplace through their decisions of which products they choose to buy or not to buy

consumer-protection laws

Laws concerned with protecting buyers’ rights

containerization Products are packed into 20- or 40-foot-long (by about 8-foot square) containers at the point of origin and retrieved from the containers at the point of destination

contingency planning The creation of alternative hypothetical courses of action that a company can use if its original plans don’t prove workable

continuity The timing of the ads, how often they appear or how heavily they are concentrated within a time period

continuous innovation

Modest improvements to an existing product to distinguish it from competitors; they require little consumer behavior change

continuous processes

A production process in which goods or services are turned out in a long production run on an ongoing basis over time

control process A four-step process: (1) establish standards; (2) monitor performance; (3) compare performance against standards; and (4) take corrective action, if needed

control standard The desired performance level for a given goal

controlling Monitoring performance, comparing it with goals, and taking corrective action as needed

convenience goods and services Inexpensive products that people buy frequently and with little effort

conversion rate the percentage of users who take a desired action, such as making a purchase.

convertible bonds

convertible bonds are bonds that can be converted into the issuing corporation’s common stock.

convertible bonds Bonds that can be converted into the issuing corporation’s common stock

convertible bonds are bonds that can be converted into the issuing corporation’s common stock.

cookies data files stored on websites that can generate a profile or other data about consumers.

Cooperative Cooperative: a corporation owned by its user members, who have pooled their resources for their mutual benefit

Corporate bonds issued by businesses as a source of long-term funding, consist of secured and unsecured bonds.

corporate citizenship

a concern for taking actions that will benefit society as well as the organization

corporate culture The shared beliefs and values that develop within an organization and guide the behavior of its members (also known as *organizational culture*)

Corporate policy

A company’s stated positions on political and social issues

corporate social responsibility (CSR)

A concern for taking actions that will benefit society as well as the organization

corporation A company or group of people authorized to act as a single entity (legally a person) and recognized as such in law.

cost of capital The rate of return a firm must earn to cover the cost of generating funds in the marketplace

cost of goods sold The cost of producing a firm’s merchandise for sale during a certain period

cost per thousand (CPM)

The cost a particular medium charges to reach 1,000 people with an ad

cost-based pricing The strategy in which the cost of producing or buying the product—plus making a profit—is the primary basis for setting price

Cost-based pricing The strategy in which the cost of producing or buying the

product—plus making a profit—is the primary basis for setting price.

countertrading Bartering goods for goods (or services)

creative selling The selling process in which salespeople determine customer needs, then explain their product's benefits to try to persuade buyers to buy the product

credit An entry recording a sum received

credit union depositor-owned, nonprofit, financial cooperatives that offer a range of banking services to their members

critical path The sequence of tasks that takes the longest time to complete

cross-functional self-managed teams Groups of workers with different skills who are given the authority to manage themselves

crowdfunding The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet

Crowdfunding Crowdfunding involves funding a project or venture by raising money from a large number of people, typically through an online site.

cultural norms The ethics, values, attitudes, and behaviors that are deemed to be normal or typical in a given culture

culture The shared set of beliefs, values, knowledge, and patterns of behavior common to a group of people

culture shock The feelings of discomfort and disorientation

associated with being in an unfamiliar culture

currency Government-issued coins and paper money

currency exchange rate The rate at which one country's currency can be exchanged for the currency of another country

current assets Items that can be converted into cash within one year

current liabilities Obligations in which payments are due within one year or less

current ratio Current assets ÷ current liabilities

customer loyalty program A customer loyalty program is designed to recognize and reward loyal repeat customers with rewards, coupons, discounts, or other benefits.

customer relationship management (CRM) Emphasizes finding out everything possible about customers and then using that information to satisfy and even exceed their expectations in order to build customer loyalty over the long term

customer satisfaction The concept of offering a product to please buyers by meeting their expectations

customers People or companies that pay to use an organization's goods or services

D

dashboard a central location where all social media activity can be easily monitored.

data analysis Subjected to statistical tools to determine its significance

databases Integrated collections of data stored in computer systems

day's range Highest and lowest price for the stock during the day

debit The recording or entry of debt in an account

debt to owner's equity ratio Measures of the extent to which a company uses debt, such as bank loans, to finance its operations

debt to owners' equity ratio A measure of the extent to which a company uses debt, such as bank loans, to finance its operations; total liabilities ÷ owners' equity

decentralized authority Decisions are made by middle-level and supervisory-level managers

decision A choice made from among available alternatives

decision making Process of identifying and choosing alternative courses of action

decline stage The period in which the product falls out of favor, and the organization eventually withdraws it from the marketplace

deficit An excess of spending over revenue

Deficit an excess of spending over revenue

deflation A general decline in the prices of most goods and services

Delegation The process of assigning work to subordinates.

demand Economic concept that expresses buyers' willingness and ability to purchase goods and services at different prices

Demand curve diagram that illustrates the quantity demanded of a good at various prices

demand deposit

A commercial bank's or other financial institution's checking account, from which you may make withdrawals at any time

democratic political system

A political system that relies on free elections and representative assemblies

demographic

segmentation Consists of categorizing consumers according to statistical characteristics of a population, such as gender, age, income, education, social class, ethnicity, and so on

demographics Measurable characteristics such as gender, age, race, and family composition

demotion When an employee's current responsibilities and pay are taken away

departmentalization The dividing up of an organization into smaller units, or departments, to facilitate management

depression A particularly severe and long-lasting recession, accompanied by falling prices (deflation)

devaluation Occurs when the value of a nation's currency is lowered relative to the value of other countries' currencies

developed countries

Countries with a high level of economic development and a generally high average income level among their citizens

developing countries

Countries with low economic development and low average incomes

digital mall a digital retail site where a variety of sellers stock their goods.

digital marketing online marketing that can deliver content immediately to consumers through digital channels, devices, and platforms.

digital marketplace a digital retail side made up of small, independent sellers.

direct channel

A producer sells directly to consumers, using mail order, telemarketing, the Internet, and TV ads

direct mail marketing

Consists of mail promotions—letters, brochures, and pamphlets—sent through the postal service to customers

direct selling Face-to-face selling directly to customers in their homes or where they work

direct-action advertising

Attempts to stimulate an immediate, or relatively immediate, purchase of a product through such devices as one-day sales, one-time promotions, or announcements of a special event

Direct-action advertising

attempts to stimulate an immediate, or relatively immediate, purchase of a product through such devices as one-day sales, one-time promotions, or announcements of a special event.

discipline Punishing an employee, often for a poor performance appraisal, usually by suspending or demoting that employee

discontinuous innovation

The product is totally new, radically changing how people live

discount brokers Execute the buy and sell orders indicated by clients but don't offer advice and tax planning

discount rate The interest rate at which the Federal Reserve makes short-term loans to member banks

discounting Assigning regular prices to products, but then resorting to frequent price-cutting strategies, such as special sales, to undercut the prices of competitors

discretionary order An order in which the customer trusts the broker's professional experience and judgment and leave it to him or her to decide the right time and price for buying or selling a security

discrimination When people are hired or promoted—or denied hiring or promotion—for reasons not relevant to the job

distribution center Provides storage of product for the short periods of time for collection and distribution elsewhere

distribution channel A system for conveying goods or services from producers to customers

distribution mix The combination of distribution channels a company uses to get its products to customers

distribution strategy An overall plan for moving products from producer to customer

distributor A person or organization (such as a dealer or retailer) that helps sell goods and services to customers

diversification Choosing securities in such a way that a loss in one investment won't have a devastating impact on your total portfolio

diversity Diversity typically refers to the similarities and differences among individuals including dimensions of personality and identity, as well as perspective and experience.

dividend and yield Annual dividend as a percentage of the price per share

dividends Part of a company's profits that are distributed to stockholders

Division of labor Different parts of a task are done by different people.

divisional structure Employees are grouped by purpose: customer groups, geographic regions, work processes, products, or industries

door-to-door selling Salespeople call directly on people at their homes or workplaces

double-entry bookkeeping The process of recording a transaction in two different accounts in order for the books to balance as a check on errors

Dow Jones Industrial Average (DJIA) Also known as "*the Dow*," a general

measure of the movement of U.S. stock prices, and an index of the average of prices of the stocks of 30 large corporations

drop shipper A limited-function wholesaler who owns (has title to) the products, but does not have physical custody of them; the drop shipper takes orders and has the producer ship the product directly to the customer

dumping Occurs when a foreign company sells its products abroad for less—even less than the cost of manufacture—than the price of the domestic product

dynamically continuous innovation Marked changes to an existing product that require a moderate amount of consumer learning or behavior change

E

e-business Using the Internet to facilitate every aspect of running a business

e-cash Money held, exchanged, and represented in electronic form and transacted over the Internet

e-commerce The buying and selling of products or services over computer networks

earned media when a business or company receives recognition or acknowledgment organically

economic community A group of nations within a geographical region that have agreed to remove trade barriers with one another (also known as *common market* or *trading bloc*)

economic responsibility

Seeking to be profitable as a means to create a strong economic foundation

economics The study of the production, distribution, and consumption of scarce goods and services

economies of scale The savings realized from buying materials or manufacturing products in large quantities

editing Refers to checking over to eliminate mistakes

effective To achieve results; to realize the firm's goals by making the right decisions and executing them successfully

efficient To use people, money, raw materials, and other resources wisely and cost-effectively

electronic commerce The buying and selling of products or services over computer networks

electronic funds transfer systems (EFTSs)

Computerized systems that move funds from one institution to another over electronic links

email marketing a cost-effective form of digital marketing used to retain, nurture, or attracting customers

embargo A complete ban on the import or export of certain products

Emotional Intelligence the capacity to be aware of, control, and express one's emotions, and to handle interpersonal relationship with empathy

employee benefits The benefits to which employees are entitled

employee buyout A firm's employees borrow money against their own assets, such as their houses or their pension funds, to purchase the firm from its present owners; the employees then become the new owners of the firm

employee non-compete contract The employee non-compete contract is a legally binding arrangement between an employee and their employer

employment at will The employer is free to dismiss any employee for any reason at all—or no reason—and the employee is equally free to quit work (also known as *at-will employment*)

employment tests Consist of any procedure used in the employment selection decision process

empowerment Employees share management responsibilities, including decision making

endless-chain sales prospecting

technique Consists of asking each sales prospect to provide the salesperson with some names of other prospects who might be interested in the product

enterprise resource planning (ERP) A computer-based system that collects and provides information about a company's entire enterprise, including identifying customer needs, receipt of orders, distribution of finished goods, and receipt of payment

enterprise zone A specific geographic area in which government tries to attract business investment by offering lower taxes and other government support

entrepreneur A person who sees a new opportunity for a product or service and who risks time and money to start a business with the goal of making a profit

entrepreneurial team A group of people with different kinds of expertise who form a team to create a new product

entrepreneurs Business owners who see a new opportunity for a product or service and start a firm

entrepreneurship The process of taking risks to try to create a new business

environmental scanning Involves looking at the wider world to identify what matters can affect the marketing program

Equal Employment Opportunity (EEO)

Commission Enforces antidiscrimination and other employment-related laws

equilibrium price Determined by the point at which quantity demanded and quantity supplied intersect (also known as market price)

equity Equity refers to fair treatment in access, opportunity, and advancement for all individuals.

equity theory Focuses on employee perceptions as to how fairly they think they are being treated compared to others

Equity theory Focuses on employee perceptions as to

how fairly they think they are being treated compared to others.

ethical responsibility Taking host-country and global standards into consideration when making business decisions

ethics Principles of right and wrong that influence behavior

ethics officer Company executive whose job is to integrate the organization's ethics and values initiatives, compliance activities, and business conduct practices into the company's decision-making processes

European Union (EU) The European common market, consisting of 28 trading partners in Europe

everyday low pricing (EDLP) A strategy of continuously setting prices lower than those of competitors and then not doing any other price-cutting tactics such as special sales, rebates, and cents-off coupons

exchange-traded fund (ETF) A collection of stocks that is traded on an exchange that can be traded *throughout* the trading day

excise tax Taxes based on the value of services or property other than real estate, such as airline tickets, gasoline, and firearms; beer, liquor, and cigarettes (sin taxes); and yachts, expensive cars, and fur coats (luxury taxes)

expectancy theory Proposes that people are motivated by (1) how strongly they want something, and (2) how likely they think they are to get it

expenses Costs incurred as part of a company's operating activities

exporting Producing goods domestically and selling them outside the country

expropriation Occurs when a government seizes a domestic or foreign company's assets

external recruiting What companies do in trying to attract job applicants from outside the organization

extrinsic motivator The external payoff, such as money or recognition, a person receives from others for performing a particular task

F

facility layout The physical arrangement of equipment, offices, rooms, people, and other resources within an organization for producing goods or services

facility location The process of selecting a location for company operations

factoring accounts receivable A firm sells its accounts receivable at a discount to a financial institution

factors of production The resources used to create wealth

family brands The same brand name is given to all or most of a company's products

favorable balance of trade Exists when the value of a country's total exports exceeds the value of its total imports

fear-appeal advertising Attempts to stimulate the purchase of a product by

motivating consumers through fear of loss or harm

federal budget deficit Occurs when the federal government spends more than it collects in tax revenues

Federal Deposit Insurance Corporation (FDIC) An independent agency of the U.S. government that insures bank deposits up to \$250,000

Federal Reserve System Called *the Fed*; the central bank of the United States and controls the U.S. money supply

Finance the business function of obtaining funds for a company and managing them to accomplish the company's objectives

finance companies Nondeposit companies that make short-term loans at higher interest rates to individuals or businesses that don't meet the credit requirements of regular banks

financial accounting Preparing accounting information and analyses primarily for people outside of the organization

financial budgets Concentrate on the company's financial goals and the resources needed to achieve them

financial control Process by which a company periodically compares its actual revenues and expenses with those predicted in its budget

financial leverage the technique of using borrowed funds to increase a firm's rate of return

financial leverage The technique of using borrowed funds to increase a firm's rate of return

financial management The job of acquiring funds for a firm and managing them to accomplish the firm's objectives

financial managers The people responsible for planning and controlling the acquisition and uses of funds

financial plan A document that lays out a firm's strategy for reaching its financial goals

Financial plan a firm's strategy for reaching its financial goals

financial statements A summary of all transactions occurring during a particular time period; there are three types of financial statements: balance sheets, income statements, and statements of cash flows

fiscal policy The U.S. government's attempts to stabilize the economy by (1) raising or lowering taxes, or (2) borrowing and spending money

fiscal year The 12-month period designated by a company for annual financial reporting purposes

fixed assets Items that are held for a long time and are relatively permanent

fixed costs Those expenses that don't change, no matter how many products are sold; examples might include rent, insurance, utilities, and property taxes

fixed-position layout Materials, equipment, and labor are transported to one location

flexible manufacturing system (FMS) A facility that can be modified quickly to manufacture different products

flexible time Consists of flexible working hours, or any schedule that gives an employee some choices in working hours (also known as *flextime*)

Flextime Consists of flexible working hours, or any schedule that gives an employee some choices in working hours (also known as *flexible time*)

focus group Small group of people who meet with a discussion leader and give their opinions about a product or other matters

for-profit organization An organization formed to make money, or profits, by selling goods and services

forced ranking performance review systems Systems in which all employees within a business unit are ranked against one another, and grades are distributed along some sort of bell curve; top grade earners are then rewarded with bonuses and promotions, and low grade earners are warned or dismissed

forecasting Predicting revenues, costs, and expenses for a certain period of time

Foreign Corrupt Practices

Act U.S. law that makes it illegal for employees of U.S. companies to make “questionable” or “dubious” contributions to political decision makers in foreign nations

foreign licensing A company gives a foreign company permission, in return for a fee, to make or distribute the licensing company’s product or service

foreign subsidiary A company in a foreign country that is totally owned and controlled by the parent company

form utility The value that people add in converting resources—natural resources, capital, human resources, entrepreneurship, and knowledge—into finished products

formal appraisals Appraisals that are conducted at scheduled times of the year and are based on pre-established performance measures

franchise An arrangement in which a business owner allows others the right to use its name and sell its goods or services within a specific geographical area

franchisee The buyer of the franchise

franchising A company allows a foreign company to pay it a fee and a share of the profit in return for using a brand name and a package of materials and services

franchisor The business owner that gives others the rights to sell its products or services

free trade The movement of goods and services among nations without political or economic restrictions

free-market economy An economic system in which the production and distribution of

goods and services are controlled by private individuals rather than by the government (also known as *capitalism*)

free-rein leaders Set objectives, and employees are relatively free to choose how to achieve them.

Freelancer A freelancer is an individual who is self-employed, and utilizes their knowledge, skills, and abilities, to perform a tasks, services or functions for a customer.

frequency The average number of times each member of the audience is exposed to an ad

front-line managers Make daily operating decisions, directing the daily tasks of individual contributors and nonmanagerial personnel

full-service brokers Offer a wide range of investment-related services, not only execution of trades but also investment research, advice, and tax planning (also known as *traditional brokers*)

full-service merchant wholesalers An independently owned firm that takes title to—that is, becomes owner of—the manufacturer’s products and performs all sales and distribution, as well as provides credit and other services

functional structure People performing similar activities or occupational specialties are put together in formal groups

futures contract Making an agreement with a seller or broker to buy a specific

amount of a commodity at a certain price on a certain date

G

gainsharing The distribution of savings or “gains” to groups of employees that reduced costs and increased measurable productivity

Gantt chart A kind of time schedule—a specialized bar chart that shows the relationship between the kind of work tasks planned and their scheduled completion dates

Gantt Chart A kind of time schedule—a specialized bar chart that shows the relationship between the kind of work tasks planned and their scheduled completion dates.

general obligation bonds Used by tax-levying government agencies to pay for public projects that will not generate revenue, such as road repairs

general partnership Two or more partners are responsible for the business, and they share profits, liabilities (debt), and management responsibilities

Generally Accepted Accounting Principles (GAAP) A set of accounting standards used in the preparation of financial statements to ensure that they are relevant, reliable, consistent, and comparable

geographic segmentation Categorizes customers according to geographic location

geotargeting Geotargeting allows marketers to specify the location where specific ads and content will be seen

by a customer based on geographic location.

geotracking use of a consumer’s geographic location to determine what goods will come up in a search and at what price.

global climate change an increase in the average temperature of Earth’s atmosphere.

Global Compact A voluntary agreement established in 2000 by the United Nations that promotes human rights, good labor practices, environmental protection, and anticorruption standards for businesses

global economy The increasing interaction of the world’s economies as a single market instead of many national markets

global outsourcing Using suppliers outside the United States to provide labor, goods, or services (also known as *offshoring*)

Global warming an increase in the average temperature of Earth’s atmosphere.

globalization Refers to the movement of the world economy toward becoming a more interdependent system

globalization The increasing connectivity and interdependence of the world’s economies, societies, and cultures because of advances in communication, technology, trade, international investment, currency movement, and migration

goal A broad, long-range target that an organization wishes to attain

goal-setting theory Proposes that employees can be motivated by goals that are specific and challenging but achievable

going public Occurs when a privately owned company becomes a publicly owned company by issuing stock for sale to the public

good A tangible product (one that you can touch)

goodwill An amount paid for a business beyond the value of its other assets, based on its reputation, customer list, loyal employees, and similar intangibles

Government bonds bonds sold by the U.S. Treasury, consist of treasury notes and treasury bonds

government regulators Government agencies that establish rules and regulations under which organizations must operate

grievance is a complaint by an employee that management has violated the terms of the labor-management agreement.

grievance is a complaint by an employee that management has violated the terms of the labor-management agreement.

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gross domestic product (GDP) The total value of all the goods and services that a country produces within its borders in one year

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country produces within its borders in one year

gross profit The amount remaining after the cost of goods sold is subtracted from the net sales

gross sales The funds received from all sales of the firm's products

growth stage The most profitable stage, this is the period in which customer demand increases, the product's sales grow, and later competitors may enter the market

growth stocks stocks issued by small, innovative new companies in hot industries

growth stocks Stocks issued by small, innovative new companies in hot industries

guerrilla marketing Consists of innovative, low-cost marketing schemes that try to get customers' attention in unusual ways

H

Hawthorne Effect The name given to a Harvard research group's conclusion that employees work harder if they receive added attention—if employees think managers care about their welfare and that supervisors pay special attention to them

Hero In the business sense, a person whose accomplishments embody the values of the organization.

Hierarchy of Authority An arrangement for making sure that work specialization produces the right result—that the right people do the right things at the right time.

host country The country in which a company is doing business

Hostile Environment

Harassment Offensive or Intimidating Workplace.

hostile takeover Situation in which an outsider (a *corporate raider*) buys enough shares in a company to be able to take control of it against the will of the corporation's top management and directors

house-party selling A host has friends and acquaintances in for a "party" with refreshments, in return for a gift from a sponsor, who typically gives a sales presentation

human capital The productive potential of employee experience, knowledge, and actions

Human capital the productive potential of employee experience, knowledge, and actions.

Human relations movement Proposed that better human relations could increase worker productivity.

human resource (HR) management Consists of the activities managers perform to obtain and maintain an effective workforce to assist organizations in achieving goals

human skills The ability to work well in cooperation with other people to get things done

hybrid structure One in which an organization uses functional and divisional structures in different parts of the same organization

hybrid work environment

A hybrid work environment typically involves an employee working a certain percentage of time in a physical office space and a certain amount of time working off-site.

idea generation Coming up with new product ideas, ideally by collecting ideas from as many sources as possible

ideate Ideate is used in business to reference the process of forming an idea

import quota A trade barrier that limits the quantity of a product that can be imported

importing Buying goods outside the country and reselling them domestically

inbound marketing a form of digital marketing that utilizes such tools as blogs, webinars, or follow-up emails to entice customers to a product or service offer without forcing an interaction or a purchase.

incentive A commission, bonus, profit-sharing plan, or stock option that induces employees to be more productive and attract and retain top performers

inclusion Inclusion describes the extent to which each person feels welcomed, respected, supported, and valued by a group, team, or company.

income statement Once known as the *profit-and-loss statement*, this financial statement shows a firm's revenues and expenses for a particular time period and the resulting profit or loss

income tax Taxes paid on earnings received by individuals and businesses

Income tax taxes paid on earnings received by individuals and businesses

Income tax taxes paid on earnings received by individuals and businesses

incubator A facility that offers small businesses low-cost offices with basic services

indenture terms Terms of the lending agreement

individual brands Different brand names are given to different company products

Individual Contributor Some employees are considered individual contributors. They do not have any people management responsibilities but may oversee or be accountable for managing projects, programs, or processes.

industrial goods Products used to produce other products

inflation A general increase in the prices of most goods and services

inflation A general increase in the cost of most goods and services as a result of increased prices

infomercials Extended TV commercials ranging from 2 (short form) to 28.5 (long form) minutes that are devoted exclusively to promoting a product in considerable detail

informal

appraisals Appraisals that are conducted at unscheduled times and consist of less rigorous indications of employee performance

informational advertising

Provides consumers with straightforward knowledge about the features of the product offered, such as basic components and price

infrastructure The set of physical facilities (including telecommunications, roads, and airports) that form the basis for a country's level of economic development

initial public offering (IPO)

The first time a corporation's stock is offered for sale

innovation A product that customers perceive as being newer or better than existing products

installations Large capital purchases

institutional advertising

Consists of presentations that promote a favorable image for an organization

institutional investors Large and powerful organizations such as pension funds and insurance companies, which invest their own or others' funds

insurance companies

Nondeposit companies that accept payments from policyholders

Insurance companies

nondeposit companies that accept payments from policyholder.

intangible assets Assets that are not physical objects but are nonetheless valuable, such as patents, trademarks, and goodwill.

integrated marketing communication (IMC)

Combines all four promotional tools to execute

a comprehensive, unified promotional strategy

integrity-based ethics code

Ethical code that seeks to foster responsible employee conduct by creating an environment that supports ethically desirable behavior

intentional tort A willful act resulting in injury

interest groups Groups whose members try to influence businesses and governments on specific issues

interest rate The price paid for the use of money over a certain period of time

intermediaries The people or firms that move products between producer and customers

intermittent processes

A production process in which finished goods or services are turned out in a series of short production runs and the machines are changed frequently to make different products

intermodal shipping

Shipping that combines use of several different modes of transportation

internal recruiting

What companies do when they make employees already working for the organization aware of job openings

International Monetary

Fund (IMF) International organization designed to assist in smoothing the flow of money among nations; operates as a last-resort lender that makes short-term loans to countries suffering from an unfavorable balance of payments

intrapreneur Someone who works inside an existing organization who sees an opportunity for a product or service and mobilizes the organization's resources to turn the opportunity into a reality

intrinsic motivator The internal satisfaction, such as a feeling of accomplishment, a person receives from performing the particular task itself

introduction stage The stage in the product life cycle in which a new product is introduced into the marketplace

inventory The name given to goods kept in stock to be used for the production process or for sales to customers

inventory The name given to goods kept in stock to be used for the production process or for sales to customers

inventory control The system for determining the right quantity of resources and keeping track of their location and use

Inventory Control The system for determining the right quantity of resources and keeping track of their location and use

inventory turnover ratio Cost of goods sold in one year \div average value of inventory

investment bankers Companies that engage in buying and reselling new securities

investment-grade bonds Bonds that are relatively safe, with a low probability

of default; they have a bond rating of BBB or above

Investment-grade bonds bonds that are relatively safe, with a low probability of default; they have a bond rating of BBB or above.

invisible hand Adam Smith's term for the market forces that convert individuals' drive for prosperity into the goods and services that provide economic and social benefits to all

Invisible hand Adam Smith's term for the market forces that convert individuals' drive for prosperity into the goods and services that provide economic and social benefits to all

ISO 9000 series Quality-assurance procedures companies must install—in purchasing, manufacturing, inventory, shipping, and other areas—that can be audited by “registrars,” or independent quality-assurance experts

J
job analysis Determine the basic elements of a job, using observation and analysis

job description Outlines what the holders of the job do and how and why they do it

Job enlargement Consists of increasing the number of tasks in a job to improve employee satisfaction, motivation, and quality of production.

Job enrichment Consists of creating a job with motivating factors such as recognition, responsibility, achievement, stimulating work, and advancement.

job postings Putting information about job vacancies on company websites, break-room bulletin boards, and newsletters

job rotation Consists of rotating employees through different assignments in different departments to give them a broader picture of the organization

job routine What is required in the job for which a person was hired, how the work will be evaluated, and who the immediate coworkers and managers are

job sharing Two people divide one full-time job

job sharing Two people divide one full-time job. Working at home with telecommunications between office and home is called

Job simplification Reducing the number of tasks a worker performs.

job specification Describes the minimum qualifications people must have to perform the job successfully

joint venture A U.S. firm shares the risk and rewards of starting a new enterprise with a foreign company in a foreign country (also known as *strategic alliance*)

journal A record book or part of a computer program containing the daily record of the firm's transactions

judiciary The branch of government that oversees the court system

just-in-time (JIT) inventory control Only minimal supplies are kept on the organization's premises and others are delivered by the suppliers on an as-needed basis

K

knockoff brands Illegal imitations of brand-name products

knowledge workers People who work primarily with information or who develop and use knowledge in the workplace

L

labor unions Organizations of employees formed to protect and advance their members' interests by bargaining with management over job-related issues

laws Rules of conduct or action formally recognized as binding or enforced by a controlling authority

leading Motivating, directing, and otherwise influencing people to work hard to achieve the organization's goals

lean manufacturing The production of products by eliminating unnecessary steps and using the fewest resources, while continually striving for improvement

ledger A specialized record book or computer program that contains summaries of all journal transactions classified into specific categories

legal responsibility Obeying the laws of host countries as well as international law

less-developed countries Countries with low economic development and low average incomes

leveraged buyout (LBO) Occurs when one firm borrows money to buy another firm; the purchaser

uses the assets of the company being acquired as security for the loan being used to finance the purchase

liabilities Debts owed by a firm to an outside individual or organization

limit order Telling a broker to buy a particular security only if it is less than a certain price or to sell it only if it is above a certain price

limited liability company (LLC) Combines the tax benefits of a sole proprietorship or partnership—one level of tax—with the limited liability of a corporation

limited liability partnership (LLP) Each partner's liability—and risk of losing personal assets—is limited to just his or her own acts and omissions and those of his or her directly reporting employees

limited partnership One or more general partners plus other, limited partners who contribute an investment but do not have any management responsibility or liability

limited-function merchant wholesaler An independently owned firm that takes title to—becomes owner of—the manufacturer's products but performs only selected services, such as storage only

line managers Involved directly in an organization's goals, have authority to make decisions, and usually have people reporting to them

line of credit How much a bank is willing to lend the borrower during a specified period of time

liquidity The essential feature of current assets, as they are easily converted into cash

liquidity ratios Measure a firm's ability to meet its short-term obligations when they become due

load funds Commission is charged for each purchase

Load funds a commission is charged for each purchase.

logistics Planning and implementing the details of moving raw materials, finished goods, and related information along the supply chain, from origin to points of consumption to meet customer requirements

long-term forecasts Predictions for the next 1, 5, or 10 years

long-term liabilities obligations in which payments are due in one year or more

long-term liabilities Obligations in which payments are due in one year or more, such as for a long-term loan from a bank or insurance company

loss Occurs when business expenses exceed revenues

loss leaders Products priced at or below cost to attract customers

M

M1 The narrowest definition of the money supply, money that can be accessed quickly and easily

M1 the narrowest definition of the money supply, is defined as money that can be accessed quickly and easily

M2 (1) Money that can be accessed quickly and easily

(that is, M1) and (2) money that takes more time to access

M2 (1) money that can be accessed quickly and easily (that is, M1) AND (2) money that takes more time to access

macroeconomics The study of large economic units, such as the operations of a nation's economy and the effect on it of government policies and allocation of resources

management Planning, leading, organizing, and controlling the activities of an enterprise according to certain policies to achieve certain objectives

management The pursuit of organizational goals effectively and efficiently through (1) planning, (2) organization, (3) leading, and (4) controlling the organization's resources

Management by Objectives (MBO) A four-stage process in which a manager and employee jointly set objectives for the employee, manager develops an action plan for achieving the objective, manager and employee periodically review the employee's performance, and manager makes a performance appraisal and rewards employee according to results

managerial accounting Preparing accounting information and analyses for managers and other decision makers inside an organization

manufacturer-owned wholesaler A wholesale business that is owned and operated by a product's manufacturer

Manufacturer's branch office An office that is owned and managed by a manufacturer that not only has offices for sales representatives, but also carries an inventory from which the staff can fill orders.

manufacturer's brands An individual company creates a product or service and brands the product or service using the company name; also called *national* or *producer brands*, or even *global brands* when extended worldwide

Manufacturer's sales office An office that is owned and managed by a manufacturer and that has offices for sales representatives who sell products that are delivered at a later time.

Market Opportunity A market opportunity is an analysis of the potential need or want of a particular product or service.

market order Telling a broker to buy or sell a particular security at the best available price

market price Determined by the point at which quantity demanded and quantity supplied intersect (also known as *equilibrium price*)

market segmentation Divides a market into groups whose members have similar characteristics or wants and needs

market share The percentage of the market of total sales for a particular product or good

market value market value is the price at which a stock is currently selling t

market value The price at which a stock is currently selling

marketable securities Stocks, bonds, government securities, and money market certificates, which can be easily converted to cash

marketing The activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

marketing concept Focuses on customer satisfaction, service, and profitability

marketing environment Consists of the outside forces that can influence the success of marketing programs. These forces are (1) global, (2) economic, (3) sociocultural, (4) technological, (5) competitive, (6) political, and (7) legal and regulatory

marketing mix Consists of the four key strategy considerations called the 4 Ps: product, pricing, place, and promotion strategies. Specifically, the marketing mix involves (1) developing a product that will fill consumer wants, (2) pricing the product, (3) distributing the product to a place where consumers will buy it, and (4) promoting the product

marketing research The systematic gathering and analyzing of data about problems relating to the marketing of goods and services

marketing strategy A plan for (1) identifying the target

market among market segments, (2) creating the right marketing mix to reach that target market, and (3) dealing with important forces in the external marketing environment

Maslow's Hierarchy of Needs theory Proposes that people are motivated by five levels of needs, ranging from low to high: (1) physiological, (2) safety, (3) social, (4) esteem, and (5) self-actualization

Mass customization Using mass production techniques to produce customized goods or services

mass production The production of uniform goods in great quantities

master budgets Used to pull together the other budgets into an overall plan of action

master limited partnership (MLP) The partnership acts like a corporation, selling stock on a stock exchange, but it is taxed like a partnership, paying a lower rate than the corporate income tax

materials handling The physical handling of goods to and from and within warehouses

materials requirement planning (MRP) A computer-based method of delivering the right amounts of supplies to the right place at the right time for the production of goods

matrix structure One which combines, in grid form, the functional chain of command and the divisional chain of command—usually product—

so that there is a vertical command structure and a horizontal command structure

maturity date the issuing organization is legally required to repay the bond's principal in full to the bondholder.

maturity stage The period in which the product starts to fall out of favor and sales and profits start to level off

mechanization The use of machines to do the work formerly performed by people

media planning The process of choosing the exact kinds of media to be used for an advertising campaign

mediation The process in which a neutral third party listens to both sides in a dispute, makes suggestions, and encourages them to agree on a solution without the need for a court trial

mediation The process in which a neutral third party, a mediator, listens to both sides in a dispute, makes suggestions, and encourages them to agree on a solution

Mediation is the process in which a neutral third party, a mediator, listens to both sides in a dispute, makes suggestions, and encourages them to agree on a solution.

medium of exchange Characteristic of money that makes economic transactions easier and eliminates the need to barter

mentor An experienced person who coaches and guides lesser-experienced people by helping them understand an industry or

organization's culture and structure

mentoring The process by which an experienced employee, the mentor, supervises, teaches, and provides guidance for a less-experienced employee, the mentee or protégé

Mentoring describe s the process in which an experienced employee, the mentor, supervises, teaches, and provides guidance for a lessexperienced employee, the mentee or protégé

Mercosur The largest common market in Latin America, with 13 member countries at different levels of participation (full, associate, observer)

merger Occurs when two firms join to form a new firm

microeconomics The study of small economic units, the operations of particular groups of people, businesses, organizations, and markets

Microloan a small sum of money lent at low interest to a new business

micropreneur A person who takes the risk of starting and managing a business that remains small (often home-based)

middle managers Implement the policies and plans of the top managers above them and supervise and coordinate the activities of the supervisory managers below them

mission statement A statement of the organization's fundamental purposes

mixed economy A blended economic system in which

some resources are allocated by the free market and some resources are allocated by the government, resulting in a somewhat better balance between freedom and economic equality

mobile marketing a set of practices that enables organizations to communicate and engage with their audience in an interactive and relevant manner through and with any mobile device or network.

mobile payment

A transaction completed through a portable electronic device via an application.

modular structure One in which a firm assembles pieces, or modules, of a product provided by outside contractors

monetary policy The U.S. government's attempts to manage the money supply and interest rates in order to influence economic activity

money Any medium of value that is generally accepted as payment for goods and services

money market accounts

Offer interest rates competitive with those of brokerage firms but they require higher minimum balances and limit check writing

Money market accounts

offer interest rates competitive with those of brokerage but they require higher minimum balances and limit check writing.

money market

instruments Short-term IOUs, debt securities that mature

within one year, which are issued by governments, large corporations, and financial institutions

Money market instruments

short-term IOUs, debt securities that mature within one year, which are issued by governments, large corporations, and financial institutions.

money supply the amount of money the Federal Reserve System makes available for people to buy goods and services.

money supply The amount of money the Federal Reserve System makes available for people to buy goods and services

monopolistic competition

A type of free market that has many sellers who sell similar products, but the sellers have found ways to distinguish among their products, or buyers perceive the products as being different

monopoly A type of free market in which there is only one seller and no competition

mortgage A loan in which property or real estate is used as collateral

motivation The psychological processes that induce people to pursue goals

multilevel marketing

Independent businesspeople, or distributors, sell products both on their own and by recruiting, motivating, supplying, and training others to sell those products, with the distributors' compensation being based on both their personal sales and the group's sales

multinational corporations

Organizations with multinational management and ownership that manufacture and market products in many different countries

Municipal bonds bonds issued by state and local governments and agencies, consist of revenue bonds and general obligation bonds.

mutual fund A fund operated by an investment company that brings together money from many people and invests it in an array of diversified stocks, bonds, or other securities

mutual savings bank For-profit financial institutions similar to savings and loans, except that they are owned by their depositors rather than by shareholders

Mutual savings bank for-profit financial institutions similar to savings and loans, except that they are owned by their depositors rather than by shareholders.

N

narrow span of control

Limited number of people reporting to a manager

NASDAQ Composite Index

Tracks not only domestic but also foreign common stocks traded on the NASDAQ exchange

National Credit Union

Administration (NCUA) An independent agency that provides up to \$250,000 insurance coverage per individual per credit union

national debt The amount of money the government owes

because federal spending has exceeded federal revenue

National Labor Relations

Board Enforces procedures allowing employees to vote to have a union and the rules for collective bargaining

necessity entrepreneur An entrepreneur who suddenly must earn a living and is simply trying to replace lost income

need-satisfaction

presentation consists of determining customer needs and then tailoring your presentation to address those needs

need-satisfaction

presentation Consists of determining customer needs and then tailoring your presentation to address those needs

negligence An unintentional act that results in injury

net income The firm's profit or loss after paying income taxes; $\text{net income} = \text{revenue} - \text{expenses}$

net period Length of time for which the supplier extends credit

net sales The money resulting after sales returns and allowances are subtracted from gross sales

neuromarketing The study of how people's brains respond to advertising and other brand-related messages by scientifically monitoring brainwave activity, eye tracking, and skin response

new product A product that either (1) is a significant improvement over existing products or (2) performs a new function for the consumer

niche marketing Consists of dividing market segments even further, to microsegments for which sales may be profitable

no-load funds There is no sales charge but the investment company may charge a management fee

No-load funds there is no sales charge but the investment company may charge a management fee.

non-disclosure agreement A non-disclosure agreement binds the individuals from disclosing proprietary information owned by one of the parties.

nonbanks Financial institutions—insurance companies, pension funds, finance companies, and brokerage firms—that offer many of the same services as banks provide

nonprofit organization An organization that exists to earn enough profit to cover its expenses and further its goals

nonstore retailers sell merchandise in ways other than through retail stores

nonverbal communication Messages sent outside of the written or spoken word, such as what constitutes permissible interpersonal space

North American Free Trade Agreement (NAFTA)

Agreement that established a common market consisting of the 450 million people of the United States, Canada, and Mexico

not-for-profit accountants

Those who work for governments and nonprofit

organizations, perform the same services as for-profit accountants—except they are concerned with efficiency, not profits

notes payable Money owed on a loan based on a promise (either short term or long term) the firm made

NOW account Pays interest and allows you to write an unlimited number of checks, but you have to maintain a minimum monthly balance

O

objective A specific, short-term target designed to achieve the organization's goals

objective appraisals

Appraisals that are based on facts and often based on numbers related to employees

off-the-job training Consists of classroom programs, videotapes, workbooks, online distance learning programs, and similar training tools

oligopoly A type of free market that has a few sellers offering similar but not identical products to many small buyers

on-the-job training Takes place in the workplace while employees are working at job-related tasks

onboarding Process that is designed to help a newcomer fit smoothly into the job and the organization

one-time shopping digital purchasing behavior that may combine product-focused shopping, browsing, researching, and bargain

hunting all at the same time. Consumers are shopping for a gift or using a gift card and will not return to the shop once the purchase is made.

one-to-one marketing

Consists of reducing market segmentation to the smallest part—individual customers

online retailing Nonstore retailing of products directly to consumers using the Internet

Online retailing Nonstore retailing of products directly to consumers using the Internet.

open shop Workers may choose to join or not join a union

open-market operations The Federal Reserve controls the money supply by buying and selling U.S. Treasury securities, or government bonds, to the public

operating budgets Used to predict sales and production goals and the costs required to meet them

operating expenses Selling and administrative expenses

operational planning

Determining how to accomplish specific tasks with existing resources within the next one-week to one-year period

operations Any process that takes basic resources and converts them into finished products—inputs into outputs (also known as *production*)

operations management The management of the process of transforming materials, labor, and other resources into goods and/or services

opportunities Favorable circumstances that present possibilities for progress beyond existing goals

opportunity entrepreneur An ambitious entrepreneur who starts a business to pursue an opportunity (and large profits)

order processing Consists of receiving customer orders and seeing that they are handled correctly and that the product is delivered

organization A group of people who work together to accomplish a specific purpose

organization's mission and

operations The purpose, products, operations, and history of an organization

organizational chart A box-and-lines illustration of the formal lines of authority and the official positions or work specializations

organizational culture The shared beliefs and values that develop within an organization and guide the behavior of its members (also known as *corporate culture*)

organizing Arranging tasks, people, and other resources to accomplish the work

outsourcing Using suppliers outside the company to provide goods and services (also known as *contract manufacturing*)

owned media the marketing channels that a company develops

owners Those who can claim the organization as their legal property

owners' equity Represents the value of a firm if its assets were sold and its debts paid

(also known as *stockholders' equity*)

P

packaging The covering or wrapping around a product that protects and promotes the product

packaging Covering or wrapping that protects and promotes a product

paid display advertising

Includes everything from banner ads to YouTube video advertising. These ads generate awareness as well as (hopefully) drive traffic to a website.

paid media all the online marketing channels that the business pays for

paid search online advertising in which a company pays to be a sponsored result of a customer's Web search.

paid stories ads that appear as content designed to look like stories to the viewer.

paid stories ads that appear as content designed to look like stories to the viewer.

par value the face value of a share of stock, an arbitrary figure set by the issuing corporation's board of directors

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Paris agreement The Paris Agreement is a bridge between today's policies and climate-neutrality before the end of the century.

Source: https://ec.europa.eu/clima/policies/international/negotiations/paris_en

part-time work Any work done on a schedule less than the standard 40-hour workweek

participation to take a meaningful and active role in organizational activities

participative leaders Delegate authority and involve employees in their decisions.

partnership A business owned and operated by two or more persons as a voluntary legal association

pay for performance bases pay on the employee's work results.

pay for performance Bases pay on the employee's work results

peak The point at which an economic expansion starts to lose steam

peer-to-peer lending The process of obtaining financing from other individuals instead of a traditional financial institution like a bank or credit union.

penetration pricing Setting a low price to attract many customers and deter competition; designed to generate customers' interest and stimulate them to try out new products

pension funds Nondeposit institutions that provide retirement benefits to workers and their families

perfect competition A type of free market that has many small sellers who sell interchangeable products to

many informed buyers, and no seller is large enough to dictate the price of the product

performance appraisal Consists of a manager's assessing an employee's performance and providing feedback (also known as *performance review*)

performance review Consists of a manager's assessing an employee's performance and providing feedback (also known as *performance appraisal*)

personal selling In-person, face-to-face communication and promotion to influence customers to buy goods and services

personal selling Face-to-face communication and promotion to influence customers to buy goods and services

persuasive advertising Tries to develop a desire among consumers for the product

PERT chart A diagram for determining the best sequencing of tasks

philanthropic responsibilities Acting as a good global corporate citizen, contributing resources to the community, and seeking to improve the quality of life for individuals as defined by the host country's expectations

philanthropy Charitable donations to benefit humankind

physical distribution All of the activities required to move products from the manufacturer to the final buyer

piece rate Employees are paid according to how much output they produce

Pitch Deck A summary of the company, future vision, market opportunity and business plan delivered via a presentation software consisting of typically between 10–20 slides.

placing The process of moving goods or services from the seller to prospective buyers (also known as *distribution*)

planning Setting goals and deciding how to achieve them

pledging accounts

receivable A firm uses its accounts receivable as collateral, or security, to obtain a short-term loan

portfolio The collection of securities representing a person's investments

preferred stock Stockholders are not able to vote on major company decisions, but they get (1) preferred, or first, claim on the company's dividends and (2) first claim on any remaining assets if the firm goes bankrupt and its assets are sold

prepaid expense An expenditure paid for during an accounting period, but the asset will not be consumed until a later time

press release A brief statement written in the form of a news story or a video program that is released to the mass media to try to get favorable publicity for a firm or its products (also known as a *news release* or *publicity release*)

price skimming Setting a high price to make a large

profit; it can work when there is little competition

price/earnings ratio Price of stock divided by firm's per-share earnings

pricing Figuring out how much to charge for a product

pricing objectives Goals that product producers—as well as retailers and wholesalers—hope to achieve in pricing products for sale

primary data Data derived from original research, such as that which you might conduct yourself

primary securities market The financial market in which new security issues are first sold to investors

principle of motion economy Every job can be broken down into a series of elementary motions

Principle of motion economy Every job can be broken down into a series of elementary motions.

Principle of motion economy Every job can be broken down into a series of elementary motions.

private accountants In-house accountants that work for a single organization; sometimes called corporate accountants

private placements Selling stock to only a small group of large investors

private-label brands Brands attached to products distributed by one store or a chain

problems Difficulties that impede the achievement of goals

process layout Similar work is grouped by function

process materials Materials for making principal product that are not readily identifiable in that product

producer price index (PPI) A measure of prices at the wholesale level (wholesale goods are those purchased in large quantities for resale)

product A good (tangible) or service (intangible) that can satisfy customer needs

product analysis Doing cost estimates to calculate the product's possible profitability

product development The production of a prototype of the product, a preliminary version, so the company can see what the product will look like

product differentiation The attempt to design a product in a way that will make it be perceived differently enough from competitors' products that it will attract consumers

product layout Equipment and tasks are arranged into an assembly line—a sequence of steps for producing a single product in one location

Product Layout Equipment and tasks are arranged into an assembly line—a sequence of steps for producing a single product to one location.

product life cycle A model that graphs the four stages that a product or service goes through during the “life” of its marketability: (1) introduction, (2) growth, (3) maturity, (4) decline

product line A collection of products designed for a similar market, or a collection of products that are physically similar

product mix The combination of all product lines that a company offers

product placement in which sellers of a product pay to have that product prominently placed in a TV show or film so that many people will see it.ⁱⁱⁱ

ⁱⁱⁱ E. Porter, “Would You Buy a New Car from Eva Longoria?” *New York Times*, July 10, 2008, p. A22; S. Clifford, “Product Placements Acquire a Life of Their Own on Shows,” *New York Times*, July 14, 2008, pp. C1, C4; and S. Clifford, “A Product's Place Is on the Set,” *New York Times*, July 22, 2008, pp. C1, C6.

product screening Elimination of product ideas that are not feasible

product-focused shopping digital purchasing behavior that involves replacing an existing product or purchasing a product that has been pre-chosen.

production Any process that takes basic resources and converts them into finished products—inputs into outputs (also known as *operations*)

production management The management of the process of transforming materials, labor, and other resources into goods

productivity The amount of output produced for each unit of input

Productivity The amount of output per input

profit Revenue minus expenses; the amount of money a business makes after paying for all its costs

profit sharing Sharing a percentage of the company's profits with employees

profitability ratios Used to measure how well profits are doing in relation to the firm's sales, assets, or owners' equity

promissory note A written contract prepared by the buyer who agrees to pay the seller a certain amount by a certain time

promotion Moving the employee to a higher management job within the company

promotion Consists of all the techniques companies use to motivate consumers to buy their products

promotion mix The combination of tools that a company uses to promote a product, selecting from among four promotional tools: (1) advertising, (2) public relations, (3) personal selling, and (4) sales promotion

property Anything of value for which a person or firm has right of ownership

property tax Taxes paid on real estate owned by individuals and businesses, as well as on certain kinds of personal property

proportional relationship Two quantities are in a proportional relationship if they have a constant ratio, or if the graph of the quantities on a coordinate plane is a straight line through the origin.

prospecting The process of identifying potential customers, who are called *prospects*

prototype A preliminary version of a product

psychographic segmentation Consists of categorizing people according to lifestyle, values, and psychological characteristics

psychological pricing The technique of pricing products or services in odd, rather than even, amounts to make products seem less expensive

Psychological safety An environment where people believe candor is welcome

public accountants Professionals who provide accounting services to clients on a fee basis

public offerings Selling stock to the general public in securities market

public relations (PR) Unpaid, nonpersonal communication that is concerned with creating and maintaining a favorable image of the firm, its products, and its actions with the mass media, consumers, and the public at large

public service advertising Consists of presentations, usually sponsored by nonprofit organizations, that are concerned with the welfare of the community in general; such ads are often presented by the media free of charge

publicity Unpaid coverage by the mass media about a firm or its products

publicly traded company A publicly-traded company is a company that issues stock that is traded on the open market typically through a stock exchange.

pull promotional strategy Aimed directly at consumers,

to get them to demand the product from retailers

purchasing The activity of finding the best resources for the best price from the best suppliers to produce the best goods and services

push promotional strategy is aimed at wholesalers and retailers, to encourage them to market the product to consumers.

push promotional strategy Aimed at wholesalers and retailers, to encourage them to market the product to consumers

quadratic equation an equation containing a single variable of degree 2. Its general form is $ax^2 + bx + c = 0$, where x is the variable and a , b , and c are constants ($a \neq 0$).

qualifying Determining if the prospect has the authority to buy and the ability to pay

quality Refers to the total ability of a product or service to meet customer needs

quality assurance The process of minimizing errors by managing each stage of production

quality of life The level of a society's general well-being as measured by several key factors, including health care, educational opportunities, and environmental health; also called *human development*

R
rack jobber A limited-function wholesaler who furnishes products and display racks

or shelves in retail stores and shares profits with retailers

ratio analysis Uses one of a number of financial ratios—such as liquidity, efficiency, leverage, and profitability—to evaluate variables in a financial statement

raw materials Basic materials for making principal product

reach The number of people within a given population that an ad will reach at least once

recession Two or more consecutive quarters of decline in gross domestic product (GDP)

recruiting The process by which companies find and attract qualified applicants for open jobs

referral sales prospecting

technique Consists of asking satisfied customers to provide names of potential customers and to contact them on behalf of the salesperson

reinforcement theory

Suggests that behavior with positive consequences tends to be repeated, whereas behavior with negative consequences tends not to be repeated

reliability Expresses how well a test measures the same thing consistently

reminder advertising Tries to remind consumers of the existence of a product

remote work environment A work environment in which employees do not work at a physical site such as an office, but work from an alternative space often a home office.

representation The action of speaking or acting on behalf

of someone, or the state of being represented.

researching digital purchasing behavior wherein the consumer is purchasing a product for the first time. Unlike browsing, which has no expected outcome, research is more deliberate and will likely result in a purchase either online or offline.

reserve requirement The percentage of total checking and savings deposits that a bank must keep as cash in its vault or in a non-interest-bearing deposit at its regional Federal Reserve bank

resource development The study of how to develop the resources for creating and best utilizing goods and services

responsibility The obligation to perform the tasks assigned to you

retailers Intermediaries who sell products to the final customer

retained earnings The portion of the company profits that the owners choose to reinvest in the company

return on assets Net income \div total assets; this information helps the company understand how well they are using their assets to generate profits

return on owners' equity Net income \div owners' equity (also known as *return on investment (ROI)*)

return on sales Net income \div sales (also known as *profit margin*)

revenue The total amount of money that the selling of

goods or services produces during a defined period of time (for example, one year)

revenue bonds Used to pay for public projects that will generate revenue, such as toll bridges

revolving credit agreement

The bank guarantees the loan and is obligated to loan funds up to the credit limit

Revolving credit agreement

the bank guarantees the loan and is obligated to

risk The possibility that the owner(s) of a business may invest time and money in an enterprise that fails (that is, does not make a profit)

risk-return trade-off Financial managers continually try to balance the firm's investment risk with the expected return from its investments

Rites and rituals The activities and ceremonies, planned and unplanned, that celebrate important occasions and accomplishments in the organization's life.

robotics The use of programmable machines

robots Programmable machines used to manipulate materials and tools to perform a variety of tasks

S

S corporation Has no more than 100 owners (shareholders), but, like a partnership, the owners are taxed only at the personal level, not the corporate level

sales commission

Salespeople are paid a percentage of the earnings

the company made from their sales

sales promotion Short-term marketing incentives to stimulate dealer interest and consumer buying

sales returns Products that customers return to the company for a refund

sales revenue The funds received from the sales of goods and services during a certain period

sales support Consists not of selling products but of facilitating the sale by providing supportive services

Sales support consists not of selling products but of facilitating the sale by providing supportive services

sales tax Taxes collected by retail merchants on merchandise they sell

Sarbanes–Oxley Act U.S. law, enacted in 2002, that established protections for whistleblowers, recordkeeping requirements for public companies, and penalties for noncompliance

savings account A bank account that pays low interest and doesn't allow check writing

savings and loan associations (S&Ls) Financial institutions that accept deposits and were originally intended to make loans primarily for home mortgages

Savings Association Insurance Fund (SAIF) Insures depositors with accounts in savings and loan associations up to \$250,000 per depositor per bank

scheduling The act of determining time periods for each task in the production process

Scientific Management Emphasized the scientific study of work methods to improve the productivity of individual workers.

Score A Small Business Association mentoring program consisting of retired executives who volunteer as consultants to advise small-business people

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search engine optimization (SEO) the process of driving traffic to a company's website from "free" or "organic" search results using search engines.

secondary data Information acquired and published by others

secondary securities market The financial market in which existing stocks and bonds are bought and sold by investors

secured bonds Backed by pledges of assets (collateral) to the bondholders

secured loan The borrower pledges some sort of asset, such as personal property, that is forfeited if the loan is not repaid

securities Financial instruments such as stocks and bonds

selection process Screens job applicants to hire the best candidate

self-assessment Employees rank their own performance to become involved in the evaluation process and to make them more receptive to feedback

self-sufficiency A country's ability to produce all of the products and services it needs or that its people want; no country is self-sufficient

selling The exchange of goods or services for an agreed sum of money

selling expenses Expenses incurred in marketing the firm's products

Selling Expenses Selling Expenses are all the expenses incurred in marketing the firm's products, such as salespeople's salaries, advertising, and supplies.

sentiment analysis a measurement that indicates whether people are reacting favorably or unfavorably to products or marketing efforts.

serial bonds Bonds that mature at different dates

Serial bonds bonds that mature at different dates.

Serial bonds bonds that mature at different dates.

Servant leader leadership philosophy and set of practices in which a leader strives to serve others by enriching the lives of individuals building better organizations, and ultimately creating a more just and caring world.

service An intangible product; usually a task that is performed for the purchaser

Service Corps of Retired Executives (SCORE)

A Small Business Association mentoring program consisting of retired executives who volunteer as consultants to advise small businesspeople

Service Level

agreements Service Level agreements often called SLAs are contracts with customers that identify what the customer will receive, when the customer will receive it, the level of quality, and the cost.

sexual harassment Consists of unwanted sexual attention that creates an adverse work environment

shadowing An employee being trained on the job learns skills by watching more experienced employees perform their jobs

shareholders Those who own stock in a company

shopping goods and

services Expensive products that people buy after comparing for value, price, quality, and style

short-term forecasts

Predictions for the next year or less

Side Hustle A side hustle is a project or business that an individual works on outside of their regular employment.

sinking-fund bonds Bonds in which the issuer makes annual deposits to a bank to accumulate funds for paying off the bonds on maturity

Sinking-fund bonds bonds in which the issuer makes annual deposits to a bank to accumulate funds for paying off the bonds on maturity.

Six Sigma A rigorous statistical analysis process that reduces defects in manufacturing and service-related processes

Skunkworks Skunkworks: a team whose members are separated from an organization's normal operation and asked to produce a new, innovative project

small business In the United States, a business that (a) is independently owned and operated, (b) is not dominant in its field of operation, and meets certain criteria set by the Small Business Administration for (c) number of employees and (d) annual sales revenue

Small Business

Administration (SBA) The principal U.S. government agency charged with aiding small businesses by providing help in financing, management training, and support in securing government contracts

social audit A systematic assessment of a company's performance in implementing socially responsible programs, often based on predefined goals

social entrepreneurship An innovative, social value-creating activity that can occur within or across the for-profit and nonprofit sectors

social media influencers consumers who have a large following and credibility within a certain market segment.

social media marketing one of the most popular forms of

digital marketing that utilizes online social networks and applications as a method to communicate mass and personalized messages about brands and products.

social media marketing

campaign a coordinated marketing effort to advance marketing goals using one or more social media platforms.

social media platform

a website-based media channel used to facilitate communication and connection.

socialism An economic system in which the government owns some major industries, but individuals own smaller businesses; the government redistributes much of the wealth or surplus of high incomes through social programs

sole proprietorship A business owned, and typically managed, by one person

solopreneur Business owners who work and operate their business alone

solvency Being able to pay debts when they become due

Span of control The number of people reporting to a particular manager.

special-interest group A group whose members try to influence businesses and governments on specific issues

specialty goods and

services Very expensive products that buyers seldom purchase or that have unique characteristics that require people to make a special effort to obtain them

speculative-grade

bonds High-risk bonds with a greater probability of default

Speculative-grade bonds

high-risk bonds with a greater probability of default

sponsorship Firms that often sponsor YouTube or Instagram celebrities who in turn endorse the firms' products. These so-called online influencers are often compensated in multiple ways for their endorsements.

staff personnel Have advisory duties; they provide advice, recommendations, and research to line managers

staffing The recruitment, hiring, motivating, and retention of valuable employees

stakeholders Those who have any sort of stake or interest in a business

Standard & Poor's 500

(S&P 500) An index of stock prices for 500 major corporations in a range of industries

standard of living A component of a society's quality of life, defined by how many goods and services people can buy with the money they have

standard of value It can be used as a common standard to measure the values of goods and services

standardization The use of uniform parts that could be easily interchanged with similar parts

statistical process control A statistical technique that uses periodic random samples from production runs to see

if quality is being maintained within a standard range of acceptability

stock Shares of ownership in a company

stock certificate A paper certificate listing the shareholder's name, name of the issuing company, number of shares you hold, and type of stock being issued

stock market indicators

Indexes of stock market prices of groups of stocks that are related in some way

stock options Key employees are given the right to buy stock at a future date for a discounted price

stock split a company divides its existing shares into multiple shares.

stock split A company divides its existing shares into multiple shares

stockholders Those who own stock in a company

storage

warehouses Warehouses that provide storage of products for long periods of time

store of wealth People can save it until they need to make new purchases

Stories A narrative based on true events, which is repeated—and sometimes embellished upon—to emphasize a particular value.

strategic partnership

A strategic partnership is a relationship between individuals or organizations typically formed by an agreement or contract. The depth and breadth of the partnership may vary based

on the parties' goals and any subsequent legal documents that outline the agreement.

strategic partnership

agreement a strategic partnership agreement is an agreement between at least two parties that outlines how the parties will work with and benefit each other

strategic planning

Determining the organization's long-term goals for the next one to five years with the resources they anticipate having

Strategy An organizational strategy is the sum of the actions a company intends to take to achieve long-term goals.

Structure Organizational structure defines how activities such as task allocation, coordination and supervision are directed toward the achievement of organizational aims

structured interview An interview wherein the interviewer asks each applicant the same identical, fixed questions and rates their responses according to some standard measure

subjective appraisals

Appraisals that represent a manager's perceptions of a subordinate's traits or behaviors

supplier A person or organization that supplies raw materials, services, equipment, labor, energy, and other products to other organizations

supplies Goods to help make, but not become part of, principal product

supply Economic concept that expresses sellers' willingness and ability to provide goods and services at different prices

supply chain The sequence of suppliers that contribute to creating and delivering a product, from raw materials to production to final buyers

supply chain management Companies produce goods and services by integrating many facilities, functions, and processes, from suppliers to customers

supply chain management the strategy of planning and coordinating the movement of materials and products along the supply chain, from raw materials to final buyers

Supply curve diagram that illustrates the quantity supplied of a good at various prices

Supreme courts Supreme courts: courts that hear cases from appellate courts; the U.S. Supreme Court also hears cases appealed from state supreme courts

suspend Temporarily removed from the job (with or without pay)

sustainability Economic development that meets the needs of the present without compromising the ability of future generations to meet their own needs

swag Swag refers to free promotional marketing items.

sweatshop A shop, factory, or farm in which employees work long hours for low wages—or no wages, in the case of prison labor, slave labor, and some child labor—

usually under environmentally, physically, or mentally abusive conditions

SWOT analysis A description of the strengths (S), weaknesses (W), opportunities (O), and threats (T) affecting the organization

Symbol An object, act, quality, or event that conveys meaning to others.

synthetic transformation The process in which resources are combined to create finished products

T

tactical planning Determining what contributions their work units can make with their existing resources during the next six months to two years

target costing The strategy in which a company starts with the price it wants to charge, figures out the profit margin it wants, then determines what the costs must be to produce the product to meet the desired price and profit goals (also known as *demand-based pricing*)

target market strategy Consists of marketing directly to such segments—the target market

target return on investment Making a profit, a specified yield on the investment

tariff A trade barrier in the form of a tax levied on imports

taxes Levies by the government to raise money to pay for government services

team A small group of people with complementary skills who are committed to common

performance goals and approach to realizing them for which they hold themselves mutually accountable

technical skills Job-specific knowledge needed to perform well in a specialized field

technology Machines that help a company get a job done, including computers, data storage, delivery vans, and vending machines

Technology Any machine or process that gives an organization a competitive advantage in changing materials used to produce a finished product.

telecommuting Working at home with telecommunications between office and home

telemarketing Consists of using the telephone to sell products directly to customers

term-loan agreement A promissory note indicating specific installments, such as monthly or yearly, for repayment

terms of trade The conditions the supplier (seller) gives the buyer when offering short-term credit

test marketing The introduction of a new product in a limited form to selected geographical markets to test consumers' reactions

Theory X Assumes workers to be irresponsible, resistant to change, lacking in ambition, hating work, and preferring to be led rather than to lead

Theory Y Makes the positive assumption that workers are capable of accepting responsibility, self-direction,

and self-control and of being imaginative and creative

Theory Y Makes the positive assumption that workers are capable of accepting responsibility, self-direction, and self-control and of being imaginative and creative.

Theory Z A motivational approach that emphasizes involving employees at all levels, giving them long-term job security, allowing collective decision making, emphasizing slow evaluation and promotion procedures, and treating workers like family

time deposits Bank funds that can't be withdrawn without notice or transferred by check

time to market The length of time it takes from a product being conceived until it is available for sale

top managers Make long-term decisions about the overall direction of the organization and establish the objectives, strategies, and policies for it

tort A civil wrongful act that results in injury to people or property

total product offering All the factors that potential buyers evaluate in a product when considering whether to buy it

total quality management (TQM) A comprehensive approach dedicated to continuous quality improvement, training, and customer satisfaction

totalitarian political system A political system ruled by a dictator, a single

political party, or a special-membership group, such as a handful of ruling families or a military junta

trade association An organization consisting of individuals and companies in a specific business or industry organized to promote common interests

trade credit short-term financing by which a firm buys a product, then receives a bill from the supplier, then pays it later.

trade credit Short-term financing by which a firm buys a product, then receives a bill from the supplier, then pays it later

trade deficit Exists when the value of a country's total imports exceeds the value of its total exports

trade promotion Business-to-business sales promotion

trade protectionism The use of government regulations to protect domestic industries from foreign competition

trade show A gathering of manufacturers in the same industry who display their products to their distributors and dealers

trade surplus Exists when the value of a country's total exports exceeds the value of its total imports

trademarks Brand names and brand marks, and even slogans, that have been given exclusive legal protection

trading bloc A group of nations within a geographical region that have agreed to remove trade barriers with one another (also known as

common market or economic community)

training and development Steps taken by the organization to increase employee performance and productivity

transaction A business deal that involves the buying, selling, or exchanging of something, usually goods or services

transaction loan Credit extended by a bank for a specific purpose

transactional leadership Focuses on creating a smooth-running organization, motivating employees to meet performance goals

transfer Movement of an employee sideways within the company to a different job with *similar responsibility*

transformational leadership Focuses on inspiring long-term vision, creativity, and exceptional performance in employees

Transformational leadership inspiring long-term vision, creativity, and exceptional performance in employees

treasury bills (T-bills) Short-term obligations of the U.S. Treasury with a maturity period of one year or less (typically three months)

treasury bonds Sold in denominations of \$1,000 and \$5,000; mature in 25 years or more

treasury notes Sold in minimum denominations of \$100; mature in 10 years or less from the date of issue

trial balance In bookkeeping, making a summary of all the data in the ledgers to see if the figures are accurate or balanced

trial close is a question or statement that tests the prospect's willingness to buy.

trial close A question or statement that tests the prospect's willingness to buy

Trial courts Trial courts: general courts that hear criminal or civil cases not specifically assigned to other courts (for example, special courts that hear probate, taxes, bankruptcy, or international trade cases)

trough The lowest point of the business cycle

two-factor theory A theory proposed by Frederick Herzberg that proposed that work dissatisfaction and satisfaction arise from two different factors—work satisfaction from higher-level needs called motivating factors, and work dissatisfaction from lower-level needs called hygiene factors

U

underwriting Activity of buying new issues of stocks or bonds from issuing corporations and reselling them to the public

unemployment rate The level of joblessness among people actively seeking work

unfavorable balance of trade Exists when the value of a country's total imports exceeds the value of its total exports

Uniform Commercial Code (UCC) A set of U.S. laws designed to provide uniformity in sales and other commercial law and to describe the rights of buyers and sellers

union shop Workers are not required to be union members when hired for a job, but they must join the union within a specified period of time

United States-Mexico-Canada Agreement (USMCA) A trade agreement among the United States, Mexico, and Canada; it replaced the North American Free Trade Agreement (NAFTA).

universal product codes (UPCs) Bar codes printed on the package that can be read by bar code scanners

unsecured bonds Bonds for which no assets are pledged as collateral; backed only by the issuing company's reputation (also known as debenture bonds)

unsecured loan The borrower does not pledge any assets as collateral

unsought goods and services Those that people have little interest in, are unaware of, or didn't think they needed until an event triggers the need

unstructured interview An interview wherein the interviewer simply asks applicants probing questions in a conversational way

user-rate segmentation Consists of categorizing people according to volume or frequency of usage

Utility, want-satisfying ability Making products more useful or accessible to consumers.

V

validity The test measures what it claims to measure and is free of bias

value The customer's perception that a certain product offers a better relationship between costs and benefits than competitors' products do

value-added tax (VAT) (goods and services tax) A consumption tax, long used in Europe, that is levied at each stage of production based on the "value added" to the product at that stage

values The relatively permanent and deeply held underlying beliefs and attitudes that help determine people's behavior

variable costs Those expenses that change according to the number of products produced; examples might include cost of materials and labor

vendor A person or organization that supplies raw materials, services, equipment, labor, energy, and other products to other organizations

venture capital Funds acquired from wealthy individuals and institutions that are invested in promising start-ups or emerging companies in return for their giving up some ownership

venture capitalists Generally companies, not individuals,

that invest in new enterprises in return for part ownership of them

vestibule training Off-the-job training in a simulated environment

video marketing Marketing to consumers on television, either through special cable TV channels or through certain programs on regular TV channels

viral campaign promotional messages spread quickly by social media users forwarding promotional messages throughout their social networks.

viral marketing Companies produce content and, through various channels, the information spreads by being shared and reposted

virtual organization Consists of a company with a central core that is connected by computer network, usually the Internet, to outside independent firms, which help the core firm achieve its purpose

vision Long-term goal of what the organization wants to become

vulnerability The emotion that we experience during times of uncertainty, risk, and emotional exposure

W

warehousing The element of physical distribution that is concerned with storage of goods

welfare state A country in which the government offers citizens economic security by providing for them when they are unemployed, ill, or elderly and, in some countries, providing subsidized college educations and child care

whistleblower An employee who reports organizational misconduct to the government or the public; such conduct may include corruption, fraud, overcharging, waste, or health and safety problems

wholesalers Middlemen who sell products (1) to other businesses for resale to ultimate customers or (2) to institutions and businesses for use in their operations

wide span of control Many people are reporting to the manager

Wilshire 5000 Index an index of that covers around 6,500 stocks traded on the New York Stock Exchange and the American Stock Exchange, and actively traded stocks on the NASDAQ; also known as “the total stock market”

word-of-mouth marketing A promotional technique in which people tell others about products they’ve purchased or firms they’ve used

work from home Some employers provide employees the opportunity to work from a home office rather than coming into a physical office space.

work rules Procedures and matters of law

Working at home Working at home with telecommunications between office and home is called telecommuting.

World Bank International organization that provides low-interest loans to developing nations for improving health, education, transportation, and telecommunications

World Trade Organization (WTO) International trade organization, consisting of 164 member countries, that is designed to monitor and enforce trade agreements

Y

yield Calculated by dividing dividend or income by the market price

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